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# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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## World news Business summary

### Ugandans sign peace pact

Uganda Government and rebel leaders signed in Nairobi a long-awaited peace pact aimed at ending two decades of internal strife. The pact was signed by head of state General Tito Okello, Yoweri Museveni, leader of the National Resistance Movement (NRM), and Kannyo, a President Daniel arap Moi, who mediated during the 3 1/2 months of talks.

Museveni has been awarded the post of vice chairman of the Military Council. His NRM, which controls much of the south of the country, has been given seven seats on the 20-member Council.

The agreement envisages a speedy return to democracy, a new constitution, immediate release of political prisoners and the recruitment and training of a new national army. Page 14; Suspicious cloud peace pact, Page 3

### Gandhi setback

The Congress party of Indian Prime Minister Rajiv Gandhi appeared to have done badly in Monday's mini general election, losing seats in a series of by-elections and failing to achieve a majority for the state assembly in the north-eastern state of Assam. Page 3

### Spanish pit strike

Thousands of Spanish coalminers started a two-day strike in protest against mine accidents and working conditions. In the Basque country, political parties and several trade union organisations called for strikes today to press for further explanations on the death of detainee Miguel Zabala. Page 2

### Dutch blockade ends

Dutch ferry drivers called off a blockade paralyzing roads and border crossings after employers won a court order banning the action.

### Shultz disappointed

US Secretary of State George Shultz said he was disappointed that Yugoslavia had let Mohammed Abbas, a suspect in last October's hijacking of the Achille Lauro ship, pass unimpeded through its territory to freedom.

### US tax debate

US House of Representatives reversed its earlier stance and voted by 268 to 183 to approve a procedural motion permitting a debate on the White House-backed tax reform bill. Earlier story, Page 4

### Appeal denied

The US Supreme Court denied an appeal by accused Nazi war criminal John Demjanjuk and cleared the way for his deportation to the Soviet Union or extradition to Israel on charges of murdering 900,000 Jews at the Treblinka concentration camp.

### Ulster by-elections

The 15 by-elections in Northern Ireland will be held on January 23, after the resignations of all the Ulster Unionist MPs in protest at last month's Anglo-Irish agreement.

### 100 Sinhalese held

Sri Lanka has arrested more than 100 Sinhalese left-wingers accused of having links with northern Tamil terrorists. Page 3

### Kidnap fear

US television network NBC fears that two Lebanese employees who live in Christian east Beirut have been kidnapped. They left home for work but did not arrive.

### 'Crime boss' killed

Paul Castellano, reputed Godfather of the American Mafia, was shot dead by three men in the centre of Manhattan.

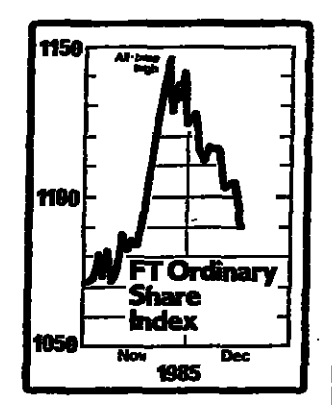
### EEC fails to find tin crisis formula

TIN: EEC countries failed to agree on a joint stance over the market crisis, dashing hopes of a quick settlement when the International Tin Council reconvenes today. Page 28

WALL STREET: at 3pm the Dow Jones industrial average was 0.48 down at 1,552.84. Page 34

TOKYO: stocks hit new peaks. The Nikkei average gained 11.9 to a record 13,128.94. Page 34

LONDON: issues lost further ground while gilts made a firmer showing. The FT Ordinary share index dropped 10.4 to 1,086.9 and the FT-SE 100 shed 11.1 to 1,363.4. Page 34



## Lawson proposes supervisory board for UK banking

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

A BOARD of Banking Supervision and criminal penalties for bankers who give false information to the Bank of England were proposed yesterday by the British Government as part of its efforts to strengthen the UK banking system and stamp out fraud.

Presenting his White Paper (policy document) on banking supervision in the House of Commons, Mr Nigel Lawson, Chancellor of the Exchequer, said: "An effective system of banking supervision is as important as the banking system itself. For without it there will not be the confidence on which sound banking depends - from the confidence of the individual depositor that his money is safe, to confidence in Britain as one of the foremost financial centres of the world."

Fraud was "a cancer" that must be eradicated, he said.

The White Paper marks the Government's response to last year's near-collapse of Johnson Matthey Bankers (JMB) and the ensuing controversy over the role of the Bank of England. But it will also mould the UK system of banking supervision to changes in the City of London and in the international banking markets.

Many of its provisions are linked

to the Financial Services Bill, which is due to be published tomorrow and will legislate regulation of the investment industry.

The new board - one of the few proposals that had not received a prior airing - will advise the Governor of the Bank of England on supervision matters and oversee the implementation of the new Banking Act. Its eight members will consist of the Governor, his deputy, the senior Bank of England executive responsible for banking supervision,

and five outside members - mainly bankers, lawyers and accountants - appointed by the Governor with the agreement of the Chancellor of the Exchequer.

The Governor may disregard the board's advice, but if he does, he must tell the Chancellor of the Exchequer. The board will also report separately to the Treasury.

That surprise proposal was viewed in the City of London last night as a compromise between the Bank's wish to retain full responsibility for banking supervision, and others in Whitehall who sought to establish a new bank supervision agency, a step the White Paper rejects as too drastic.

The key proposals in the White Paper are intended to boost the authority of the Bank of England. Its power to obtain information from banks will have statutory backing. The document also commits the Government to increasing the resources of the Bank's supervision department.

UK banks will be obliged by law to report exposures to individual borrowers that exceed 10 per cent of their capital.

Commons row, Page 6; Editorial comment, Page 12; Lex, Page 14; Details, Page 15

## Petrofina makes agreed bid for UK oil company

BY DOMINIC LAWSON IN LONDON

PETROFINA, Belgium's largest industrial company, has launched an agreed bid, worth £145m (\$208m) for Charterhouse Petroleum, a leading UK oil exploration company.

The offer, of three shares in Petrofina and £59 cash for every 255 Charterhouse shares, is the first time that a leading international oil company has bid for a UK-quoted oil company.

The London stock market was surprised yesterday that Charterhouse directors, who had built up a well diversified North Sea company in 10 years, should agree to being taken over only hours after receiving a bid approach by Petrofina.

Mr David Roberts, Charterhouse's financial director, said yesterday: "There is a time to build companies and a time to sell companies. In this oil market it is quite clear that we could have continued only by shedding staff and assets. There would have been a slow dis-

mantling of the edifice, with the original six staff back in the original office, but 10 years older."

Mr Tony Craven Walker, chief executive of Charterhouse, said: "We would get a hell of a lot worse. Over the next year the UK independent oil sector could be devastated. It is our duty to recommend an offer like this to our shareholders."

Mr Pierre Jungels, chief executive of Petrofina UK, said that his company bid for Charterhouse, not only because it had a wide spread of North Sea assets which did not overlap with the 37 blocks licensed to Petrofina, but also because it wanted to use Charterhouse's proven abilities as an operator in the North Sea.

The UK Department of Energy has the ability to revoke the licences that Petrofina intends to get from Charterhouse if it does not want to see UK-owned North Sea

assets fall into foreign hands. Last year, the department warned BP of Australia off any attempt to bid for Lasso, a UK oil company.

The department said yesterday that it needed time to consider the bid, but it seems most unlikely that it would thwart a bid by a company from within the European Community.

Oil analysts said that Charterhouse had been seeking a merger with a larger oil company since its attempted £18m merger with Saxo Oil in July was foiled by an all-cash counter-bid from Enterprise Oil.

On Monday, Charterhouse's shares closed at a new low of 66p. When the bid was announced yesterday morning the shares jumped to 100p, the value of the all-cash component of Petrofina's bid.

Lex, Page 14; News analysis, Page 20

## Bankers set date of acceptance for Westland rescue package

BY LIONEL BARBER AND PETER RIDDELL IN LONDON

A RESCUE package for Westland, the troubled UK helicopter manufacturer, is expected to be formally signed and underwritten by City of London institutions tomorrow, Leazard Brothers, merchant bankers advising the company, said yesterday.

The rescue will involve Sikorsky, the US helicopter maker, and Fiat of Italy injecting around £30m (\$43m) for a 29 per cent stake in Westland, coupled with a heavy rights issue for existing shareholders.

National Westminster Bank and Barclays, Westland's two principal bankers, have agreed to exchange their debt into convertible preference shares.

The deal, supported by the Westland board, is still subject to shareholders' approval. But it will create a new, recapitalised company, thus casting doubt on the viability of the European counter-proposal strongly favoured by Mr Michael Hes-

lopine, the UK Defence Secretary.

Mr David Horne, director of Lloyds Merchant Bank advising the European consortium, said: "It does put us at a disadvantage, but it is not the end of the day."

The European consortium which includes British Aerospace, Aerospaciale of France, Augusta of Italy and Messerschmitt-Bölkow Blohm of West Germany, intends to send a circular to shareholders outlining its own rescue package when it has examined the Sikorsky-Fiat plan. But Mr Horne said the Europeans had been hampered by a lack of information and by the refusal of Westland bankers to enter into ne-

gotiations. A meeting with the banks last week proved fruitless, he said.

Details of the Sikorsky-Fiat plan have been circulated to a small number of institutional shareholders in Westland. One institution described the proposals yesterday as "attractive and encouraging."

On Monday, several shareholders in the City, and United Scientific Holdings, the UK defence contractor, said they backed Sir John Cockney, Westland chairman, in his decision to accept the American-Italian offer. They expressed disquiet over Mr Heslopine's campaign to press for a European solution over the heads of the Westland board, although they said they remained open to a firm offer on the table.

Westland shares are suspended at 60p, valuing the helicopter maker at around £35m. The new shares

Continued on Page 14

## Zia and Gandhi agree to improve relations

By John Elliott in New Delhi

INDIA AND PAKISTAN yesterday took their most significant step for more than a decade towards improving their fractious relations when they agreed not to attack each other's nuclear facilities and to adopt a "step-by-step" programme of building mutual confidence between the two countries.

At the end of an afternoon of talks in New Delhi Mr Rajiv Gandhi, India's Prime Minister, and President Zia Ul-Haq of Pakistan, announced a series of measures which could transform years of verbal battles and border clashes, interspersed with three wars.

"We have agreed to go step by step in a systematic manner," said a smiling President Zia, sitting next to Mr Gandhi at Delhi airport last night.

He indicated a possible easing in the growing arms race between the two countries when he said that Pakistan would "naturally review its arms purchases" when relations between the two countries were normal.

Asked if an overall agreement had been reached, Mr Gandhi, who is to visit Pakistan in the first half of next year, said: "We cannot jump to the final step without going through a process of confidence building and what we have agreed to take today are various steps in that direction."

The most difficult issues dividing the countries - the disputed northern territory of Kashmir and the details of Pakistan's nuclear policy - are not to be discussed to begin with.

"We are starting off with areas of agreement rather than the disagreements," said President Zia.

However, tensions have been eased by the agreement, announced by President Zia, that "We have decided and given an undertaking not to attack each other's nuclear facilities." Both countries insist they are engaged only on peaceful nuclear programmes but both of them - and Pakistan in particular - fears an attack by the other on its facilities.

The nuclear confidence-building work will start in two weeks with a series of meetings of ministers and senior officials, culminating in Mr Gandhi's projected visit to Pakistan which will be the first by an Indian Prime Minister since the mid-1960s.

Finance ministers will next month develop a programme of economic co-operation that has already

## IFC draws up Third World loan package

BY NANCY DUNNE IN WASHINGTON

THE International Finance Corporation (IFC), the World Bank affiliate designed to boost private investment, is preparing several new initiatives to boost capitalism in the Third World, one of which is a \$50 to \$60m fund to invest in the stock markets of developing countries.

The Emerging Markets Growth Fund, due to be launched in March, is one of the foremost projects in what IFC officials say is a new era for the bank affiliate which promotes private investment in the Third World.

Shares of the fund will be placed among a small group of large institutional investors from Europe, Asia and the US. Initially closed ended, the fund has as its principal objective long-term capital growth through investment, mostly in stocks, listed on the public stock exchanges of a number of developing countries.

Generally, the fund would only invest in markets which, in the judgment of its manager, meet acceptable minimum criteria covering market liquidity, investor information and official regulations, including fiscal and foreign exchange repatriation rules. Stock markets which could be considered for investment include those of Argentina, Brazil, South Korea, Thailand, Malaysia, Chile and Mexico.

The IFC expects that eventually the amount of the fund will be expanded substantially as the availability of acceptable securities for

investment increases. New tranches may be issued through private placements or public issues.

The board of directors would have the option to make the fund open-ended after its first 3 to 5 years. In order to meet certain stockholders requirements, it may be listed on the Luxembourg stock exchange.

A second initiative, for small and medium-sized African countries, is expected to begin operation next year. The Africa Project Development Facility, a joint project of the IFC, the Africa Development Fund and the United Nations Development Fund, will provide about \$14m to help launch African entrepreneurs.

The facility would provide technical assistance and consultation in preparation of private projects in response to policy reforms to stimulate growth of the private sector in several sub-Saharan countries.

The UN agency has approved a \$2.5m contribution for the project. The Africa Development Bank intends to seek approval from its board for \$1m; six countries - Belgium, Denmark, France, Germany, Italy and the Netherlands - have pledged additional capital.

Another IFC project in the formulation stage, called the management service facility, will employ professional managers and advisers and lend them out to troubled commercial firms in Africa, both to manage and advise local personnel.

## Latin Americans outline debt plan

BY JIMMY BURNS IN MONTEVIDEO

LATIN AMERICAN debtors have agreed on a wide ranging counter-proposal to the Baker plan for Third World debt. The counter-proposal does not sabotage the plan, formulated by US Treasury Secretary, Mr James Baker, in Seoul in October, but is bound to complicate its implementation.

This emerged yesterday as Finance and Foreign ministers from 11 countries, the Cartagena Group, met for what were expected to be the final hours in a two day economic summit exclusively devoted to forging a common front on the Baker plan.

But officials confirmed that the ministers would not alter substantially the broad consensus already

reached at technical level that the Baker plan, while a step in the right direction, provided insufficient funds to stimulate growth over the next three years in a region whose total foreign debt exceeds \$350bn.

Instead, the ministers were expected to press for additional measures intended to arrest the negative transfer of resources from Latin America to industrialised nations.

The main measures broadly agreed are:

- Commercial banks should commit themselves to boost lending levels beyond those contemplated by the Baker plan. The annual increase in their exposure over 1985

Continued on Page 14

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## EUROPEAN NEWS

## Westland's action angers Agusta

By James Buxton in Rome

THE EUROPEAN helicopter industry will be seriously weakened if the partnership of Sikorsky of the US and Fiat of Italy buys a stake in the ailing British company, Westland, according to Mr. Raffaele Teti, the chairman of Agusta, the Italian helicopter manufacturer.

He said that the rival bid by European aerospace companies including Agusta still had a chance of success. "I don't know what will happen," he said in an interview, "but our bid has been strengthened by the participation of British Aerospace and now of GEC."

The original members of the consortium were Aerospaziale of France and MBB of West Germany, as well as Agusta.

Mr. Teti expressed considerable resentment at the way the European consortium's efforts to rescue the company had been treated by Westland's board and, in particular, by its chairman, Sir John Cuckney.

"The world helicopter industry is going through very difficult times," he said, "yet these European companies, not all of which are in the best of health themselves, rushed to the bedside of Westland as a gesture of friendship. But Westland did not respond in the way one would have expected."

"While Sikorsky and Fiat were allowed to examine Westland's books, we were excluded. We could not make our own valuation. It was an unequal contest," he said.

"Just one hour after we handed in our bid to Westland they announced that they were accepting the Sikorsky offer. They couldn't have read it in that time."

"Now we read that Mr. Leon Brittan (the British Trade and Industry Minister) told the House of Commons triumphantly that Sikorsky and Fiat could take up to 40 per cent of Westland. Sir John Cuckney told us we could only go up to 25 per cent. Yet we were told to go up to 40 per cent in our bid document."

"We also said that if Westland recovered we would be prepared to pull out again to leave it independent. I do not think that will happen with Sikorsky and Fiat. Their 40 per cent will be overwhelming."

Mr. Teti said he knew of no suggestion by Fiat that Agusta would be welcome to join the Sikorsky-Fiat partnership bidding for Westland. This would not be possible. They know we are part of the other consortium."

He rejected any suggestion that the European consortium bid was a weak one because of Agusta's heavy borrowings. "We got the agreement of our Government to back it in record time," he said.

Mr. Teti, who became chairman last year, said the presence of Sikorsky in Westland would have a "polluting" effect on the European helicopter industry.

Westland would lose the capacity to develop its own helicopters. "Research and development will decline." Nor would it be able to participate in the NH90 project for a Nato helicopter for the 1990s, since it would be building the Sikorsky Black Hawk, the US rival.

Mr. Teti was confident that Sikorsky would respect existing agreements between Westland and Agusta on two major helicopter projects, which constitute the developing Anglo-Italian axis in the industry.

"We have had no contact with Sikorsky, but we do not need assurances on the future of the EH101 naval and utility helicopter (which is designed to come into service in the 1990s). We own 50 per cent of European Helicopter, a London based company, which will build it and Westland owns the other 50 per cent. The contract will have to be respected."

"There is also an agreement between the British, Italian and Dutch governments and their respective aerospace companies to develop a multi-role combat helicopter based on our own Agusta A129 Mangusta anti-tank helicopter. This concerns Westland. I don't think that Sikorsky has an interest in withdrawing from this agreement."

## Lisbon sacks board of state television

PORTUGAL'S new centre-right Government yesterday sacked the state television's management board, citing recent coverage of a guerrilla news conference as one reason for the move, Reuters reports from Lisbon.

The Cabinet, in a statement, also accused Radio Televisão Portuguesa (RTP) of financial mismanagement.

Several invited reporters including a television crew attended a briefing last Thursday by three members of Portugal's FP-25 guerrilla group which has claimed responsibility for several bombings and killings over the past five years.

Critics of the news conference were shown during the mid-evening television news.

## Go-ahead expected for W. German stock exchanges reform

By Jonathan Carr in Frankfurt

A LONG-AWAITED move to improve the efficiency and co-ordination of West Germany's decentralised stock exchange system is expected to be approved at a meeting near Frankfurt tomorrow.

Senior representatives of the eight regional exchanges are likely to give the go-ahead to a "mini-reform" plan, although some are known still to have misgivings.

Under the scheme, the loose "working group" of the exchanges will be upgraded to a fully-fledged association with a permanent headquarters (Frankfurt) and president. This body will carry out major tasks presently duplicated by the eight, handle legal and technical issues and generally represent the interests of the exchanges at home and abroad.

The move is aimed at helping prevent the fragmented West German stock market falling further behind the international competition—above all

of New York, Tokyo and London.

But although the changes planned look modest, they have been preceded by months of regional squabbling which at one time seemed to threaten prospects for any reform. Only a joint initiative last month by four leading Frankfurt-based banks—determined to have a decision before the end of the year—succeeded in plucking the discussion out of the mire.

The smaller exchanges have long feared that their status, and even their existence, could be endangered by the growing predominance of Frankfurt and Düsseldorf, which together accounted for more than 80 per cent of market turnover last year.

Under the new plan all eight exchanges will be maintained. But it is understood that voting procedures in the new association will give Frankfurt and Düsseldorf decisive weight.

## French employers call for end of price controls

By David Housego in Paris

THE FRENCH employers' association said yesterday that the lifting of price and foreign exchange controls should be among the first measures taken by a new government next March.

Though not explicitly backing the opposition, the employers made clear at their annual general meeting yesterday that they hoped for a right-wing victory in the spring general election. The gathering coincided with the publication of a newspaper poll showing that 67 per cent of chief executives questioned favoured the coming in of right and that 73 per cent wanted President Francois Mitterrand to stand down if the opposition wins.

Mr. Yvon Gattaz, president of the CNPF employers' association, said afterwards that the performance of the economy was "precarious, if not mediocre".

Among other measures which the employers want carried out in the first four months of a new government's term were: abolition of the requirement that redundancies must have prior government approval; abolition of wealth tax; an initial 33 per cent cut in the tax profession (a type of payroll tax); and budgetary support for the building industry.

Measures which the CNPF propose should be got under way by the end of next year include: denationalisation; cuts in social security spending; a reduction in corporate taxation from current rates of 50/45 per cent to 33 per cent; and lowering the marginal rate of income tax to 50 per cent.

On the budget, Mr. Gattaz wanted acceptance by the Government of several of the extra allocations—totaling just over 100 billion francs (15.4 billion dollars)—approved by the Storting over the past two months. The Government had agreed to boost expenditure by around half the figure proposed—to a budget total of about 100 billion francs.

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## Norwegian budget crisis averted

By Fay Gjerster in Oslo

AN ELEVENTH hour compromise between the leaders of Norway's Conservative Party and the maverick rightist Progress Party has averted the danger of a government defeat when the Storting (Parliament) votes on the revised budget for 1994 later this week.

The Conservatives are the dominant partners in a three-party, right-of-centre coalition which, lacking a parliamentary majority, normally depends on the Progress Party MPs to get its measures through the Storting.

Kare Willoch, Conservative Prime Minister, had warned that if these two voted with the Labour and Socialist left opposition on the issue of budget changes his Government would resign.

The final vote on the revised budget, originally due to be held yesterday, has been delayed until tomorrow to allow for a last-minute deal between the Conservatives and Mr. Karl I. Hagen, leader of the Progress Party.

Mr. Hagen had been seeking two concessions from the Government, one political and one budgetary. He wanted recognition in a statement by the Prime Minister of his party's key role in keeping the minority Government in power. This Mr. Willoch could not agree to.

A prime minister from the 10 Comecon states met yesterday in Moscow to co-ordinate their five-year plans. Hungary's semi-official newspaper Magyar Hirlap said that the meeting was to discuss the economic integration of the Comecon's shortcomings.

The slow-down in economic growth and unsatisfactory performance of the Comecon economies were an indication that the possibilities inherent in the economic integration of the Socialist community should be utilised in a far more expedient manner than so far, it said.

This was especially true for high and new technologies. As an example of poor performance, it pointed out that high technology accounts for only 10-15 per cent of exchanges, between Comecon members.

Individual countries tended to put their own interests before co-operation, the newspaper claimed. It referred to recent studies which attribute deficiencies in production specialisation to an excessive

pursuit of self-reliance in the member countries which leads to frequent duplications.

Magyar Hirlap said that Comecon must improve its overall economic performance if it was to avoid technological dependence. It also called for streamlining financial structures. "Not only must appropriate objectives be outlined, but the systems of interest and financial conditions must also be improved."

Patrick Cockburn adds from Moscow: The Soviet Union will emphasise joint development projects at the Prime Ministers' meeting here. Moscow is eager to rely as much as possible on its East European allies for imports of machinery during its next five-year plan which starts at the beginning of 1994.

A high technology areas to be discussed are electronics and computers, automation and robotics, atomic energy, new materials such as polymers and biotechnology, say Comecon officials.

The Soviet Union also wants East European involvement in projects such as the development of the Yamal gas field in west Siberia from which East European states benefit.

The devaluation rumours were being floated deliberately to promote foreign exchange intervention, he said in a brief interview today, the cast statement.

When the drachma was devalued by 15 per cent last October as part of an economic stabilisation package designed to reduce public sector and current account deficits, sales of imported goods fell sharply.

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## Swiss banks adopt a cautious approach to Baker debt plan

By William Dullforce in Geneva

THE SWISS banks have agreed in principle to participate in the Baker plan to ease the developing countries' debt crisis but they want several technical details clarified before they will sign up.

"We think the approach is right. The changes in Washington's attitude to the debt crisis are welcome and we hope the plan can be effective," Dr Hans Masi, executive vice president of Credit Suisse, said yesterday.

The plan, launched in October by Mr. James Baker, the US Treasury Secretary, calls for commercial banks to lend \$20bn (£14.2bn) in fresh money to the 15 most indebted countries over the next three years. The World Bank and the Inter-American Development Bank would lend a similar amount.

The US had asked for pledges from the commercial banks by the middle of December. US, Canadian and Japanese banks indicated their support but in

Western Europe only the British and French lined up in time.

The three big Swiss banks—Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse—are now understood to have agreed among themselves that they should not remain aloof, although initially senior executives grumbled about being bulldozed by the US into risking funds without proper commercial assessment.

One reason for the Swiss banks' readiness in that just over \$8bn their present exposure to the 15 indebted countries is relatively small. If contributions to the Baker plan are to be measured by current lending, they would be asked to provide a modest \$400m spread over three years.

A letter of intent has been drafted by Mr. Franz Lottli, president of Swiss Bank Corporation, and is being circulated to the Swiss bankers' committee, but the Swiss bankers want some questions answered by the

US Treasury before they sign it.

One concerns the definition of "new money." The Swiss capital market generates substantial amounts in issues for the World Bank and other international development institutions. Would they count as new Swiss money?

If a developing country or one of its institutions comes to the Swiss market in its own right to launch a new issue, would that be seen as a contribution to the Baker plan?

The procedure under which commercial bank lending is to be co-ordinated with that of the International Monetary Fund, the World Bank and international development banks needs elucidating, the Swiss bankers feel.

They are discussing these questions with other European bankers in particular with the West Germans, who have also so far failed to back the Baker plan.

## Hungary joins criticism of inefficiencies in Comecon

By Patrick Blum in Vienna

HUNGARY HAS added its voice to Soviet criticism of poor production and co-ordination within Comecon arguing that this has led to serious inefficiencies in the Communist bloc's economic system.

A prime minister from the 10 Comecon states met yesterday in Moscow to co-ordinate their five-year plans. Hungary's semi-official newspaper Magyar Hirlap said that the meeting was to discuss the economic integration of the Comecon's shortcomings.

The slow-down in economic growth and unsatisfactory performance of the Comecon economies were an indication that the possibilities inherent in the economic integration of the Socialist community should be utilised in a far more expedient manner than so far, it said.

This was especially true for high and new technologies. As an example of poor performance, it pointed out that high technology accounts for only 10-15 per cent of exchanges, between Comecon members.

Individual countries tended to put their own interests before co-operation, the newspaper claimed. It referred to recent studies which attribute deficiencies in production specialisation to an excessive

pursuit of self-reliance in the member countries which leads to frequent duplications.

Magyar Hirlap said that Comecon must improve its overall economic performance if it was to avoid technological dependence. It also called for streamlining financial structures. "Not only must appropriate objectives be outlined, but the systems of interest and financial conditions must also be improved."

Patrick Cockburn adds from Moscow: The Soviet Union will emphasise joint development projects at the Prime Ministers' meeting here. Moscow is eager to rely as much as possible on its East European allies for imports of machinery during its next five-year plan which starts at the beginning of 1994.

A high technology areas to be discussed are electronics and computers, automation and robotics, atomic energy, new materials such as polymers and biotechnology, say Comecon officials.

The Soviet Union also wants East European involvement in projects such as the development of the Yamal gas field in west Siberia from which East European states benefit.

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## Iraq leader ends talks in Moscow

By Patrick Blum in Vienna

IRAQ'S President Saddam Hussein, one of the Soviet Union's closest allies in the Middle East, completed talks in the Kremlin yesterday at the end of which President Andrei Gromyko called for a political settlement to the Iran-Iraq war.

The Soviet Union is Iraq's main weapons supplier in the war and continuing military support is crucial if President Saddam Hussein is to repulse an Iranian offensive expected soon.

Of the almost \$30m worth of Soviet arms exported to the Third World in 1984, a substantial amount went to Iraq. Part may be on credit but the \$810m worth of oil imported by the Soviet Union from Iraq and \$350m worth from Saudi Arabia last year were largely in payment for weapons deliveries, say diplomats.

China has invited Mr. Erich Honecker, the East German leader, to visit Peking, according to East German diplomats, reports Leslie Collin in Berlin. It would be the first visit by a Warsaw Pact leader since the political rift between China and the Soviet Union in the early 1960s.

Romania food move Romania has set up a ministry to improve food supplies and deal with food shortages, writes Patrick Blum in Vienna. It will be headed by Mr. Gheorghe Bocu, a member of the Communist party's Politburo. The country has suffered recurrent food shortages. A severe drought has hit agriculture and supplies were short throughout last winter. After an improvement in the summer, shortages of basic foods have resumed.

The atmosphere became particularly strained in June, when the EEC warned the Turkish Government that if it passed proposed police legislation, relations would deteriorate even further. The Commission's representative in Ankara, Mr. Gwyn Morgan, has since appealed the conditions for unfreezing the Association agreement and resuming aid to Turkey.

The Government must terminate the long-running trials of trade unionists and permit complete freedom of political association—including trade union membership.

Turkish officials insist that substantial improvements in human rights are needed before the EEC can lift its trade embargo. The Commission's representative in Ankara, Mr. Gwyn Morgan, has since appealed the conditions for unfreezing the Association agreement and resuming aid to Turkey.

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## Greens seek resignation over German spy probe

By David White in Madrid

WEST GERMANY'S radical Green party, angered by revelations that its Members of Parliament were investigated by the West German counter-intelligence service, yesterday demanded the resignation of Mr. Friedrich Zimmermann, Interior Minister, Reuters reports from Bonn.

The Greens, who have called a special sitting of the parliament to discuss the affair, also called for all secret files on Greens and other deputies to be made public, they destroyed.

At a news conference in Bonn, Greens members made much of the fact that it was a member of the right-wing Bavarian Social Union (BSU), their political opponents, who had sought the investigation.

The counter-intelligence service revealed last Friday that it had been ordered by Mr. Zimmermann's ministry to investigate the Greens party for possible links with terrorists and extremists.

Mr. Zimmermann and Mr. Carl-Dieter Spranger, his deputy, who ordered the investigation, are both CSU members.

"We demand that Zimmermann resign and Spranger be fired," a Greens statement said.

The weekly magazine Stern reported on Monday that the service also kept files on deputies of the opposition Social Democratic Party (SPD).

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## Basques call for strike over detainee's death

By David White in Madrid

BASQUE political parties and several trade union organisations have called for general strike protests today in the Spanish Basque country and in the neighbouring province of Navarre to press for further explanations on the death of detainee Mr. Mikel Zabala.

The strikes, which are expected to have the most impact in the radical Basque stronghold of San Sebastian, are due to go ahead despite the release yesterday of the results of a post-mortem examination, apparently supporting the official version of Mr. Zabala's death.

The autopsy found the cause of death to be drowning, with no signs to indicate that Mr. Zabala was tortured, as has been alleged by several sources including the dead man's family.

Mr. Zabala's body was found in the River Bidasoa in northern Navarre on Sunday. This was close to where members of the paramilitary Civil Guard said he gave them the slip almost three weeks previously, after he was held under the controversial detention provisions of Spain's anti-terrorist law.

The Civil Guard said the suspect, who was handcuffed, escaped through a hole in the wall of a tunnel where he had been taken to believe an arms cache was located.

Parties and unions which have issued strike calls range from the moderate Basque nationalists of the PNV, the ruling party in the region, to the ETA sympathisers of Herri Batasuna (popular unity).

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This week's arrests of several suspects may not reassure many people,



## OVERSEAS NEWS

3

## Gandhi party suffers setback in election for Assam assembly

BY JOHN ELLIOTT IN NEW DELHI

MR RAJIV GANDHI'S Congress party last night appeared to have done less well than it hoped in Monday's mini general election, losing seats in a series of by-elections and failing to achieve an early majority for the state assembly in the north-eastern state of Assam.

Coming a year after Mr Gandhi was swept to power in a general election landslide, this could be interpreted by critics both within and outside his party as a warning that his attempts to modernise India rapidly are leading to resentment among the electorate. But he still has a majority of more than two-thirds in the Indian parliament and his mandate to govern is not affected.

In Assam Mr Gandhi successfully negotiated a settlement for the state's disputes over refugees which led to peaceful elections on Monday. It is nearly three years since more than 3,000 people were killed in the state's last elections.

Last night it appeared that the Assam Gana Parishad, the

Assamese people's party formed by students who led the agitation over the refugees, would win more seats than Congress. Whichever party forms a government will have to implement the peace agreement. The agreements involve the deportation from Assam of alleged refugees who have come to India from Bangladesh, which in turn denies it has allowed any illegal refugees to cross its borders into Assam.

Despite the reverses for Congress, Mr Arjun Singh, former governor of Punjab and now Commerce Minister in Mr Gandhi's Government, was leading in the vote-counting in a New Delhi by-election and was heading for his seat in the India parliament's lower house, the Lok Sabha.

● A one-man judicial inquiry set up a year ago to inquire into the Union Carbide gas leak at Bhopal, where more than 2,000 people died, was wound up yesterday by the state government of Madhya Pradesh.

## Limpet mine explodes in Durban bus garage

By Anthony Robinson in Johannesburg

THE SPATE of bombings and landmine explosions which has afflicted South Africa in the last few weeks continued yesterday when a limpet mine exploded at a bus garage near Durban in the early hours of the morning, destroying nine buses and causing extensive damage.

It was the third such explosion in the Durban area over the last 10 days and follows similar incidents in Johannesburg and Durban over the last three months. Meanwhile, local military commanders from both Zimbabwe and South Africa met yesterday to discuss preventing Zimbabwean territory being used either as a transit route or refuge for African National Congress guerrillas. This follows South African allegations that the landmines which have caused seven deaths and 11 injuries in an area close to the frontier over the last three weeks were placed by guerrillas whose tracks were followed to the Limpopo River.

A spokesman for the Foreign Ministry confirmed yesterday that the South African trade representative in the Zimbabwean capital of Harare yesterday emphasised to officials the seriousness with which the South African Government views the latest incidents.

South Africa has threatened to mount hot pursuit raids across the border if future incidents occur, and the meeting between the local commanders implies that Zimbabwe is taking the threat seriously and is prepared to discuss co-operation.

● Police announced that ten blacks were killed on Saturday in two separate incidents of faction fighting in the Gregynog area of Natal and Pinetown in the suburb of Durban.

A potentially explosive situation also appears to be building up in the remote rural area of Moxie, 100 kilometres north-east of Pretoria where 120,000 Northern Sotho speaking people are threatened with incorporation into the Ndebele speaking homelands of KwaNdebele.

Mary Ann Fitzgerald reports on the prospects for a country torn by war

## Leaders' suspicions cloud Uganda peace



UGANDA'S RULERS are faced with the greatest challenge yet in the country's 22-year quest for peace. In order to achieve national unity, they must not only put aside their own feelings of mutual animosity, but also overcome deep-seated political and tribal differences in the country which have been exacerbated by military atrocities.

The long-awaited peace pact, signed yesterday, appears straightforward, but is fraught with obstacles. Analysts have described it as a military solution in political trappings and fear that its implementation may be jeopardised by the overt suspicion that exists between Gen Tito Okello, the head of state, and the National Resistance Movement (NRM).

At the signing ceremony between the two parties, Mr Yoweri Museveni, the NRM leader, lambasted Gen Okello for the murders perpetrated by his unruly troops and blamed him for the bloodshed that has caused the death of over 1,000 Ugandans since the July coup.

"The violation of human rights that has gone on in Uganda is simply beyond belief. We are not going to stop until the people who are responsible

for this massive homicide are brought to book," he warned. This outburst underlined the enmity that exists between the NRM's Bantu supporters, who come from the south, and the predominantly Nilotic soldiers of the Uganda National Liberation Army led by Gen Okello, who come from the north.

Mr Museveni's intransigence during the four months of talks casts doubt on his stated desire for a political, rather than a military solution.

Observers at the negotiations said it appeared that Mr Museveni was stalling for time to see if his troops might gain a military edge that would give

the NRM full control of the country. Several times he has threatened to march on Kampala, the capital, if the peace talks disintegrated, and a senior Kenyan official yesterday confirmed that he had earlier received military assistance from Libya.

About one-third of Ugandan territory, primarily in the west and southwest, has been in NRM hands since October, and earlier this month Masindi, the third largest town to fall to the NRM, was captured in an assault that reportedly met little resistance.

Whether or not Uganda will achieve its much sought-after internal reconciliation hinges on the formation of the new military force that will replace the discredited Uganda National Liberation Army.

It is to be composed of 3,700 UNLA soldiers, 3,580 NRA troops and 400 men from each of the other three smaller rebel groups that once waged bush wars against the regime of Dr Milton Obote, deposed in the July coup by Gen Okello.

Before recruiting can begin however, the new Government faces the formidable task of collecting the guns of an estimated 50,000 men now under

arms. Most of these men will have to be returned to civilian life, at a time when Uganda's economy is almost bankrupt. Donors have estimated the country needs about \$400m a year in aid to set it back on its feet.

Mr Museveni made it clear yesterday that he intends to abide by an NRM proviso that no soldier who has committed a crime against the people be recruited into the new force. The dilemma of identifying those who have done so is virtually insoluble.

Britain plans to instal a military advisory team of about 15 men, headed by Maj Gen Anthony Pollard in Kampala next month. They will help with the disarmament of soldiers and the recruiting of the new army under the aegis of a Government-appointed committee.

Mr Museveni has made considerable headway in his pursuit of legitimate political power, but his gains still fall short of controlling the military.

He has failed to win the defence portfolio, which has gone to Lt Gen Basilio Okello, commander of the armed forces who led the coup, and an ally of Gen Okello.

Mr Museveni's main chance for exerting influence is through political channels that have yet to be developed. The agreement gives his NRM equal representation with the UNLA members of the Military Council in the Cabinet, but Gen Okello retains the casting vote. Should his ageing leader die, his successor will be voted in by a two-thirds majority.

With the odds seemingly stacked against him, Mr Museveni is nevertheless demonstrating an astute political sense. He is reported to be cultivating a friendship with Mr Paul Ssemogerere, leader of the Government delegation at the talks and Interior Minister.

Mr Ssemogerere is head of the Democratic Party, which was in opposition to Dr Obote's Uganda People's Congress, and is backed by the Baganda, the southern people who also form the rank and file of the NRM.

The agreement makes provision for political parties to be represented in due course on the council, so that such an alliance could prove a powerful factor when eventually the council names a date for elections to return Uganda to civilian rule.

## Sri Lankan police arrest 100 left-wing Sinhalese

BY MERVYN DE SILVA IN COLOMBO

SRI LANKA'S political troubles have taken a distinctly new and possibly dangerous turn with the arrest of over 100 Sinhalese left-wingers accused of having "links with the northern (Tamil) terrorists."

Opposition circles say that the number is nearer 200 and that the crack-down is the start of a "witch-hunt" against parties of the left. What has shocked the opposition is that the suspects have been detained not only under emergency regulations but under the Prevention of Terrorism Act.

The Appeal Court has issued notice on the Inspector General of police, Mr Cyril Herat, and the head of the CID, in a habeas corpus application filed by the wife of the most prominent detainee, Mr Indika Gunawardene. He is the brother of Mr Dinesh Gunawardene, MP, the leader of a small radical opposition party, MEP, which is also a stringent champion of Sinhalese-Buddhist majority interests. Their father, the late Philip

Gunawardene, was the founder of the Marxist movement in Sri Lanka and served as a Cabinet minister under both Premier Solomon Bandaranaike and Premier Dudley Senanayake. Mr Indika Gunawardene's wife is a respected doctor and her brother a superintendent of police. In view of this family background, the detention has startled middle class opinion in Colombo.

Influential monks, Christian clergymen and leading academics and professionals have launched a campaign for the release of political prisoners.

What is most disturbing is that many of the suspects are said to be members of a break-away faction of the JVP which launched the 1971 bloody uprising of Sinhalese youth. The revolt came from the island's deep south, the home of Sri Lankan leftism. The new "north-south" connection, if it is true, gives the Sri Lankan crisis a new dimension.

## Sudan ready to sign debt agreement with IMF

BY JOHN MURRAY BROWN IN KHARTOUM

SUDAN'S transitional government was last night expected to come to agreement with the International Monetary Fund (IMF), ending months of speculation over whether the country would be declared in default in failing to settle its arrears with the fund.

The agreement binding Sudan to a package of economic reforms now paves the way for a rescheduling of the country's \$8bn external debt.

Few details of the agreement were available but informed sources were yesterday ruling out a devaluation of the Sudanese pound. The black market pound currently trades at 30 per cent over the commercial bank rate.

Price controls are believed to be central to the agreement with a variety of fiscal measures to ease pressure on the country's balance of payments.

Earlier this month the Government stepped down over

the imposition of new income tax arrangements, which would have replaced the Islamic zakat tax used under the former regime of ex-President Jafaar Numeiri. Any move to revive the income tax proposals could meet with stiff union opposition.

In the short term the agreement allows donors to release funds to pay the arrears to the fund, now exceeding \$190m. The US have expressed willingness to provide \$50m and Saudi Arabia, Sudan's largest bilateral donor, is expected to follow suit.

However, the agreement looks set to be strongly criticised by unions. In April this year it was union opposition to a similar IMF package that was instrumental in bringing down former President Numeiri.

In a related incident 25 members of the National Socialist Alliance, a party supportive of the former president, have been arrested, according to a senior police source.

## Seoul expels Washington Times journalist

By Steven B. Butler in Seoul

THE South Korean Government yesterday expelled and declared persona non grata the Tokyo correspondent of The Washington Times in protest over an article saying a summit meeting had taken place between South and North Korea. The Government said the report was untrue and that it had warned the correspondent, Mr Timothy Elder, not to publish it.

Relations between the Government and the foreign press have recently grown tense, with the former objecting strongly to a series of reports describing high-level contacts in which discussions took place about a possible summit meeting.

A government spokesman said yesterday there was concern over "speculative" reports that could damage South Korea's foreign diplomacy.

## Moroccan state spending set to increase by 37.7%

BY FRANCIS GHILLES

MOROCCAN government spending is set to increase by 37.7 per cent to Dirhams 68bn (£5bn) according to a draft budget which the Rabat parliament is expected to approve before the end of this month. A 31 per cent increase in state revenues is predicted by Mr Abdelatif Jorahri, the Minister of Finance. Investment spending is expected to increase by 67 per cent to Dirhams 20.5bn.

No new taxes are planned but VAT is expected to be introduced next year.

A record cereal crop has led to a 14 per cent increase in farming output this year which in turn explains the 4.8 per cent increase in gross domestic product, a figure more than twice that reached in 1983 and 1984.

over the next five years to modernise his armed forces, most of which are deployed to maintain the Moroccan presence in the disputed Western Sahara territory.

Servicing foreign and domestic debt will cost 119 per cent more next year than in 1985. Foreign debt interest of \$13bn—more than Morocco's GDP in 1984—will nearly double to Dirhams 5bn, despite the recently completed rescheduling of the 1984-85 bank debt.

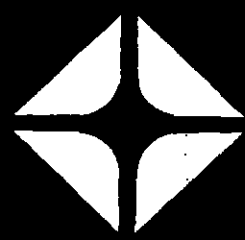
King Hassan has meanwhile promised that the state would pay its backlog of debt to domestic companies, many of whom have had to reduce activity.

The Government, headed by Mr Mohamed Karim Lamrani, will continue to implement measures called for by the IMF, including cutting subsidies on staple foods and allowing the dirham to depreciate.

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## AMERICAN NEWS

# White House optimistic over tax reform Bill

BY STEWART FLEMING IN WASHINGTON

THE WHITE HOUSE claimed yesterday it had rounded up 50 Republican votes in the House of Representatives to support the Administration-backed tax reform Bill—the minimum level of support needed from the President's own party to give the legislation any chance of approval.

But Mr Tip O'Neill, House speaker, said he is still not sure whether the legislation, which the White House has said is the top domestic legislative priority of the President's second term, will pass. "I hope that we could pass it. Whether or not we can I do not know," he said.

But even as the White House was signalling some optimism on the Tax Bill, and in doing so attempting to shift the blame for failure on to the rival Democratic Party, Mr Reagan's legislative agenda was unravelling elsewhere.

Late on Monday night a combination of liberal Democrats and right-wing Republicans combined to vote down a continuing resolution needed to authorise several key government departments to maintain operations.

Yesterday morning the House approved a new temporary spending bill which will expire on Thursday removing the threat that the Administration

would have to send federal workers home because it could not pay them. But officials on Capitol Hill were expressing concern that a stalemate over federal spending for defence now loomed.

The rejection in the House on Monday night of the \$370bn spending Bill for government departments which have not yet had specific appropriations bills approved came as a shock. The vote amounted to a rejection of a bi-partisan compromise which had been hammered out in a House-Senate conference committee.

Some congressmen put the setback down to the unpredictability of late night sessions. "It's never wise to keep the House in after 11 pm," said Rep Lynn Martin, a Republican from Illinois. "It's like managing a nursery school without a nap."

Many liberal Democrats voted against the bill because it provided for defence spending appropriations of \$22.5bn, some \$13.6bn above the level approved earlier by the House. The bill also lacked the provisions for reform of defence procurement which many liberals backed, and contained funds for the production of chemical weapons for the first time since 1969.

## US suffers worst ever merchandise trade deficit

BY OUR CORRESPONDENT IN NEW YORK

THE US current account deficit surged to \$30.5bn (£21bn) in the third quarter as America suffered its worst merchandise trade deficit ever and farm exports hit their lowest level since the first quarter of 1979, the Commerce Department reported yesterday.

The second quarter current account deficit was \$27.7bn.

The decline in the value of the dollar on the foreign exchanges this year has not yet been reflected in any improvement in the merchandise trade deficit, which rose \$4.6bn to \$33.1bn. But the fall in the dollar helped to produce a sharp

increase in US income from services and to contain the deterioration in the current account deficit. The Commerce Department said.

Net service receipts rose \$2.5bn to \$6.7bn, reflecting a rise from \$1.6bn to \$10.2bn in income from US direct investment abroad, mainly as a result of capital gains due to dollar depreciation.

Separately the Commerce Department reported a surprisingly large fall of 12.2 per cent in new housing starts. Falling interest rates had been expected to give the housing market a boost.

## Coffee price boost for Colombian exports

By Sarita Kendall in Bogotá

INCREASED coffee prices are expected to give a sharp boost to Colombia's export earnings this year and during 1986. Official estimates now believe coffee earnings will rise from \$1.5bn (\$1.1bn) to almost \$2bn during the year as a result of Colombian coffee taking advantage of drought in Brazil.

These higher coffee export earnings forecasts came as Colombian officials were due in the US yesterday to sign a \$1bn loan agreement with commercial banks. The loan agreement shows Colombia remains one of the few Latin American debtors capable of obtaining fresh funds from commercial banks. Total private and public foreign debt stands at \$12.7bn.

Negotiations with the banks were slow, largely because of the Government's determination to avoid formal standby arrangements with the International Monetary Fund (IMF). The search for a special formula began over a year ago, and it was finally agreed that the Colombian economy would be monitored every quarter by the IMF.

The deal has gone through despite an embarrassing leak from the Fund that led the Colombian Government to ask for the postponement of an IMF mission.

In spite of strong progress on the external front, the authorities have been less successful in cutting back the budget deficit. But the Finance Ministry has promised that the most difficult period is over, and policies will now stress stability and growth.

The 1985 inflation rate is expected to end up at around 24 per cent, while economic growth is estimated at 2.5 per cent to 3 per cent. Rapid devaluation has boosted the official and black market exchange rates together, encouraging people to change money in the banks. Foreign income is also being fuelled by the rise in coffee prices. Nearly two-thirds of the credit will go towards the completion of the Cane Limón oilfield development and El Correo coal project. Early coal sales from El Correo would have put into effect a credit line in some \$50m so far this year.

## France's Caribbean possessions may be a little too French, reports David Housego

### Islands in the sun ponder problems of largesse

TWENTY years ago General de Gaulle's first words when he addressed the crowds that had gathered to hear him in Fort de France, Martinique, were: "Mon Dieu, mon Dieu, comme vous êtes Français. (My God, my God, how French you are.)"

Notwithstanding the coconut palms and the banana groves, both Caribbean islands are still very French. Beaujolais Nouveau lies on the table of restaurants in Martinique and Guadeloupe in late November as it does in France. Village town halls and churches have been built by French architects and the French people are just as often out of order.

The islands have among the highest living standards of any territory in the region, but economic and political uncertainties are beginning to cloud the horizon.

"Our problem is underdevelopment," M Aimé Césaire, the poet-mayor of Fort de France, said. "We are not a colony, we are a French territory. We have received a status intended to give us the same rights as citizens of metropolitan France."

Both Martinique and Guadeloupe were incorporated into France as overseas departments in 1946—a status intended to give them the same rights as citizens of metropolitan France.

But in a Caribbean that is largely dependent and eight hours flying time from Paris, the very "Frenchness" of the islands is beginning to have an

anachronistic ring. French assistance is paradoxically both too open-handed and too insufficient so that Martinique and Guadeloupe obtain from the central government FF 4,750 (£428) per head of population in transfer payments and investments compared with an average of FF 700 in metropolitan France. Eighty per cent of Guadeloupe's gross product comes through aid from France.

But this high level of support and the heavy social security payments that companies in the Antilles as in France have to pay, have pushed up labour costs to levels that are a disincentive to industrial investment. At the same time, the business communities



on both islands have long prospered by importing from France—giving them little interest in taking the plunge into more risky industrial ventures.

Two recent events have further underlined the Antilles' economic vulnerability. The privileged position that the two islands had in terms of access to the EEC for their sugar and banana exports as a result of being French departments has been whittled away by the lowering of tariff barriers to other developing countries who are signatories of the Lomé convention.

At the same time the Reagan plan for the Caribbean has opened up US markets to exports from a number of Caribbean countries, but not including the French Antilles. M Césaire warns that as a result, French investors "will find it more worthwhile to invest in Haiti or elsewhere in the Caribbean than in Martinique or Guadeloupe."

French help is insufficient in that the islands are increasingly aware that they will not be exempt from the budgetary squeeze that is hitting public expenditure in France.

President Mitterrand was unable to overcome a crumby economic comfort earlier this month. His message was to emphasise the need for regional co-operation within the Caribbean, self help and the individual identity of the islands within the French nation.

The decentralisation, under

taken since the Socialists came to power, and the creation of a regional assembly, has in Martinique at least gone a long way to satisfying demands for greater autonomy.

The two islands are very different places. Martinique has long been France's favourite son in the region—the island where its military headquarters are located and the administrative centre for the university system. A large majority prefers to remain part of France rather than risk the drop in living standards that would come with independence.

Guadeloupe has a tradition of more militant political and trade union activity and there are sharper differences in wealth. The ARC revolutionary movement has for the moment called truce, but independent parties are said to represent anything up to 10 per cent of the vote.

Events in being given strong encouragement by the US to remain a major power in the region. The French presence not only helps the US maintain a lower profile but the relatively high living standards of the French islands mean that there is no illegal immigration from them to the US.

Inhabitants of Guadeloupe and Martinique can instead freely enter and take jobs in France—an advantage that only a minority would want to give up for the greater uncertainties of independence.

## Canada scores notable success in defeating recession

BY OUR FOREIGN STAFF

CANADA registered notable successes in its recovery from the country's most severe post-war recession. The Organisation for Economic Co-operation and Development (OECD) said in its annual report on the Canadian economy published today.

Gross national product (GNP) in 1984 posted its highest annual growth rate since 1976 and continued to grow rapidly in the first half of 1985, the report said.

Even though the upturn is well into its third year, inflation has been kept under control. Moreover, the foreign trade account posted a record surplus.

"Looking ahead to the country's short term prospects, no major internal risk to a continuation of the recovery is

foreseen, even though GNP growth is projected to slow in 1986."

Canada did, however, face two major medium term problems: a federal budget deficit which, relative to GNP, was one of the highest among those of major OECD countries and persistently high unemployment.

Exports had contributed 1.3 percentage points to last year's GNP growth of 8 per cent, helped along by an improvement in Canadian competitiveness vis-à-vis the US (though not compared with other countries).

At the same time imports of manufactured goods had increased more rapidly than overall domestic demand. Patterns of demand and exchange rate against the Euro-

CANADIAN ECONOMY			
Volume (percentage changes)			
	1984	1985	1986*
Gross national product (GNP) .....	+ 5.8	+ 8.1	+ 7.2
Inflation rate .....	+ 2.8	+ 3.1	+ 3.1
Exports of goods and services .....	+ 19.5	+ 4.1	+ 4.1
Imports of goods and services .....	+ 14.4	+ 5.1	+ 5.1
Unemployment rate .....	11.3	10.1	9.1
* Forecast. † GNP deflator. ‡ Per cent of labour force.			
Source: OECD.			

ing investment and upgrading the labour force are expected to predominate eventually.

The OECD report notes that Canada's economy has had a good record of creating new jobs in the past. Present prospects for a substantial strengthening of demand for Canadian raw materials did not look promising.

"Should this situation persist in the longer term, a further shift from the resource-based sector to other branches of the economy may be required to permit a return to full employment," it said.

OECD Economic Surveys 1985: Canada. Ottawa: Centre for Economic and Policy Studies, 1985. 276 pp. ISBN 0-662-25450-1. \$12.50. Hb. \$15.00. Pb. \$10.00. Hb. \$15.00. Pb. \$10.00.

## WORLD TRADE NEWS

## West Germans hope for N-sale to China soon

BY JOHN DAVIES IN FRANKFURT

WEST GERMANY is hoping to clinch the sale of nuclear reactors to China in a few months, although the deal is still uncertain and has long been clouded by complex negotiations and international competition.

A major countertrade operation is being put together to help meet the cost of the project through the export of Chinese raw materials. China may also sell uranium to West Germany.

With Bonn's backing, Kraftwerk Union (KWU) is seeking an order for two 1,000 Mw reactors for a power station at Sunan, about 100 miles from Shanghai.

KWU, a subsidiary of the Siemens electrical group, has been fighting hard for the contract in view of the scarcity of nuclear power station orders. The French firm Framatome, the French nuclear reactor company, also has its eye on the Sunan project. The French are pleased at winning agreement in principle for the supply of reactors for the Daya Bay power station, which will generate electricity for Guangdong Province and Hong Kong.

Nuclear experts in West Germany believe that China is anxious to obtain the best terms through competition.

The West Germans feel that China wants to maintain wide room for manoeuvre by build-

ing up nuclear links with France and West Germany.

But with China reining in development ambitions, there is speculation that it might postpone the Sunan project, possibly for a year or two, while continuing talks with the West Germans.

The countertrade package associated with the deal is understood to be near completion.

Phillips Petroleum International Corporation and Pecten Orient Company yesterday signed a contract with China for offshore oil exploration rights in the South China Sea, AP reports.

The official news agency Xinhua said the US companies were awarded a contract area of 2,773 square miles in the Pearl River Mouth basin about 93 miles from the Shenzhen Special Economic Zone.

It was the third contract in the second round of offshore bidding, which began in November, 1984.

The first contract was awarded to three Japanese companies, and the second was given to the Esso-Shell group, formed by Esso China of the US and Shell Exploration (China) of Britain.

tion, although Metallgesellschaft, the Frankfurt-based metals and mining house, has declined to give any details.

It is widely known, however, that part of the KWU project would be met by the export over many years of non-ferrous metals, including tungsten, and chemicals to Metallgesellschaft, which has been rapidly building up countertrade business, would arrange buyers for these materials world-wide, including the Pacific area. It has offices in Beijing, Shanghai, Canton and Shenzhen and is expanding them.

China also wants to export uranium to West Germany to help pay for the KWU deal and to West Germany, and the second utilities are seriously considering the idea. It is believed that some utilities are very close to signing a contract.

There are serious doubts, however, about whether the deal which the Chinese have been linking with the KWU deal—China's offer to store spent nuclear fuel and nuclear waste from West Germany.

The West Germans have suggested they might be able to send 150 tonnes of spent nuclear fuel to China between now and the year 2000, but the Chinese want many times that amount to justify the project.

## Japan stays silent on US car export curb

By Jurk Martin in Tokyo

JAPAN has taken no decision on whether to continue voluntary restraints on car exports to the US beyond next March, when the present programme expires.

Mr Yasuhiro Nakasone, the Prime Minister, made this clear in a speech to the Diet yesterday, when he said that the government was still undecided on the subject.

Mr Nakasone said that the government was still undecided on the subject of whether to continue the programme beyond next March, when the present programme expires.

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## European Commission identifies 23 barriers to trade with US

BY PAUL CHEESBRIGHT IN BRUSSELS

THE EUROPEAN Commission yesterday published a list of 23 barriers to trade with the US.

Their publication was a riposte to President Reagan's speech of September 23 when he said that the US was not fair to all, then trade is 'free' in name only.

The list of complaints, many of them old and the subject of fruitless talks, also constitutes a trade negotiating agenda for the next few months.

The list has been presented to Dr Clayton Yeutter, the US Trade Representative, as Mr de Clercq, the Commission's external relations commissioner has said: "The notion of fair trade must be applied in the same manner, on both sides of the Atlantic. He added, should not believe that the US was the only country to respect the rules of international commerce."

Both sides have traditionally been willing to compromise in the name of a free trade agreement, each should accept under the General Agreement on Tariffs and Trade.

The Commission seized the

opportunity again to vent its displeasure with "Buy American" practices.

But the Commission, having drawn up a list of 23 barriers, is not, it appears, very clear what to do next.

It was noted yesterday that here was the ground for the next series of trade disputes. On the other hand, it was made clear that the Commission has no formal strategy in its approach to commercial relations with the US.

However, the barrage of complaints crossing the Atlantic both ways reduces the force of the expressions of mutual collaboration in the preparations for a new round of multilateral trade negotiations.

This dichotomy is sharply etched in agricultural trade. The time is coming when the subject for negotiation in the international talks. The Commission list of unfair US trading practices includes agricultural import quotas, the 50 per cent tariff on European American farm product exports and the protected sugar price in the US.

## Call to lift restrictions on small airlines

By Our Brussels Correspondent

EUROPEAN Community air ministers will be asked to free restrictions on small airlines operating from regional centres in a new initiative for liberalisation of the industry to be launched by the European Commission in the New Year.

They will be asked to build on a 1983 directive which permitted greater freedom for the provision of air services between regional centres in different Community countries by permitting links between the regional centres and the hubs of the main trunk routes.

The Commission initiative was disclosed yesterday by Mr Stanley Clinton Davis, Commissioner for Transport.

He is already seeking to pilot through the council of ministers a wider measure which would permit greater fare and capacity flexibility.

Since the 1983 directive was passed, 15 applications to provide service between Community regional centres have been approved.

## Eximbank may offer mixed credit for Algerian metro

BY FRANCIS GHILES

A PROJECT to build a metro in Algiers worth around \$350m (£248m) is high on the list of six deals for which the US Eximbank may offer mixed credit packages aimed at beating French competition.

The US threat to match any French mixed credit package is aimed specifically at the contract for the rolling stock worth about \$80m for which Transit America, formerly Budd Company, is likely to bid.

The US intends to set up a "war-chest" which would be used to make mixed credits so expensive that the French would end or sharply curtail the practice.

France has answered with its own fighting fund but other countries are bound to suffer if last month's opening shots lead to a credit war.

Bids are not expected to be called for before late this winter.

The \$350m, a conservative estimate, would cover the building of one 12 km line from Oued Kouiche to Badjara, along the seafloor.

It fits into the wider belief of revamping the capital of Algeria which has job, since 1980, to much road, house and school building together with the huge cultural and commercial centre round Riad El Fatha, the monument to the martyrs of the war of liberation built by the Canadian company Lavasse.

The initial study for the metro was done by Sofreco, the consulting arm of the Paris metro RATP. It recommended that the system should run on rubber tyres because of the high gradient of part of the track.

The project will be split up into three parts: civil engineering, including tunneling for which French, Japanese and Spanish companies are expected to bid; the electrical and mechanical work which includes tracks, rolling stock, power supply, and signalling and workshop facilities.

Supervising the project will interest Elektrowatt of Switzerland, Deutsche Eisenbahn Consulting, British Rail Consulting

## Pan Am applies to fly Airbus across Atlantic

BY LESLIE COLT IN BERLIN

PAN AM has applied to the US Federal Aviation Administration (FAA) to fly European Airbus A310-200 aircraft between Hamburg and New York.

The airline is aiming to begin the route to be served by the two engine airliner which has a range of 6,500 km.

TWA, Air Canada and El Al began Atlantic flights earlier this year using the two-engine Boeing 767. The advantage over the conventional four-engine aircraft is a considerable saving in fuel.

Pan Am in West Berlin said the Airbus flight to New York will originate in Berlin with stopover in Hamburg.

The airline is aiming to begin North Atlantic flights with the Airbus in early February on four days a week in both directions. It has also applied to use the Airbus on flights between Shannon and New York beginning in late March.

Pan Am said it is seeking permission to fly a route which would keep it within 120 minutes of an alternative airfield. It needs an exemption

from the FAA for this, which was given to the airline flying the Boeing 767. Some changes will also have to be made in the Airbus's instruments.

Pan Am recently took delivery of three A310-200s from Boeing which had bought them from Kuwait Airlines before they went into service.

Finland's Finnair has signed a contract to buy five ATR-72 aircraft, and has taken an option on three more, the French aerospace company Aerospatiale said, Reuter reports from Paris.

The ATR-72, a stretched version of the ATR-42 short-haul commuter plane, is built by a Franco-Italian consortium comprising Aerospatiale and Italy's Aeritalia.

The ATR-72s will be delivered in 1989. No financial details were immediately available.

Finnair ordered five ATR-42s in April 1982, the first of which will go into service in March next year to replace the F-27s and DC9-10s used on Finnair's domestic flights.

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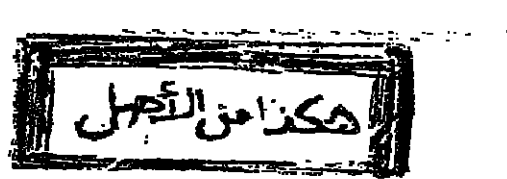
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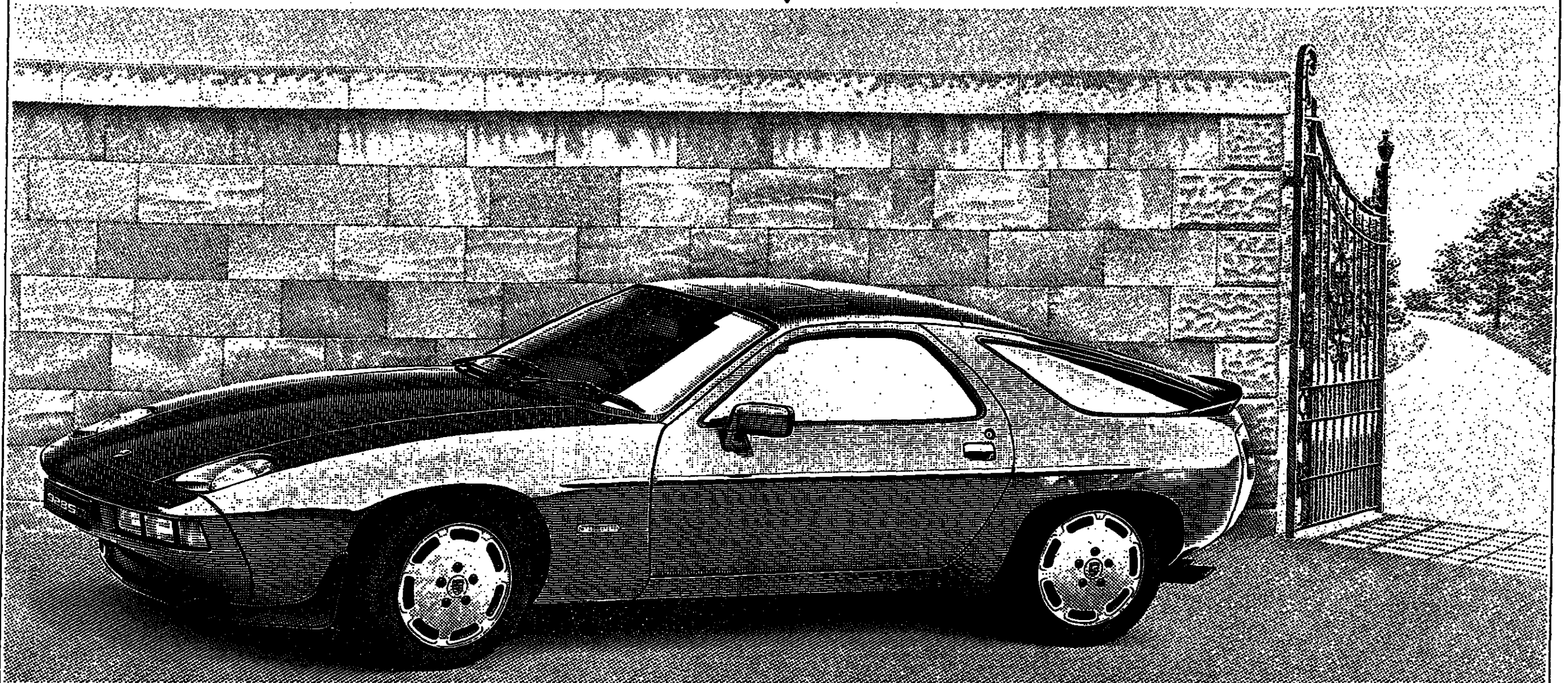
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## UK NEWS

## Lawson in row with MP over City allegations

BY PETER RIDDELL, POLITICAL EDITOR

THE ANGER and frustration of Mr Nigel Lawson, the Chancellor of the Exchequer, over the wailing of allegations by Mr Brian Sedgmore, the Labour MP, about City of London fraud yesterday boiled over in the House of Commons into an exchange of insults between the two men.

"Scurrilous McCarthyite smear campaign," and "snivelling little git" were among the exchanges that Mr Bernard Weatherill, the Speaker (chairman), alone among MPs present chose not to hear, but then to deplore in general.

The occasion came after Mr Lawson's statement on banking supervision. The first jibe came from Mr Sedgmore, who has recently produced a series of allegations about the Johnson Matthey Bankers and Lloyd's affairs. He accused Mr Robin Leigh-Pemberton, the Governor of the Bank of England, of "wanton negligence" and of being "not merely a disaster but a disgrace."

He wondered how anyone could place their trust in a system of supervision organised by this "appalling disaster."

Mr Lawson then turned on Mr Sedgmore and, to Tory cheers, accused him of being the biggest fraud so far exposed. "By engaging in a scurrilous, McCarthyite smear campaign under the cloak of parliamentary privilege to further your own sordid political objectives, you have succeeded only in damaging the good name of the City, to the delight of our competitors overseas, and in impeding the police in their attempt to bring wrongdoers to book."

Mr Lawson added: "To describe you as a pest would be unfair to pests." At that point, an angry Mr

Sedgmore shouted: "You snivelling little git."

Tory MPs then attacked Mr Sedgmore for his remarks and some complained that his words were "disgraceful."

Mr Weatherill said he had not heard all the remarks, or to whom they were addressed - although that was clearly apparent to other MPs and observers. Mr Sedgmore, the Labour MP for Hackney South and Shoreditch, in East London, said in reference to his "snivelling little git" remark that it was "an East End epithet."

Mr Weatherill warned MPs in general and Mr Sedgmore in particular that MPs needed to take great care about the imputations put on the characters of others not in the Commons.

That incident followed a renewed demonstration of how City affairs have become an important political issue when several Labour MPs and one Tory member raised allegations of fraud with Mrs Margaret Thatcher, the Prime Minister.

She emphasised her determination to do everything possible to deal with fraud and said the Government had just received the report of Lord Roskill on the handling of big fraud trials. She said that contained 112 recommendations, which would be considered carefully. The report would be published next month.

Later, Mr Roy Hattersley, Labour's deputy leader, in a speech on the City, said its integrity was now in doubt with a growing number of malpractices. He sought to associate the Government with the City's problems and urged tighter regulation.

## Shell to build £180m oil plant

By Max Wilkinson, Resources Editor

SHELL UK is to spend £180m on a new plant to make petrol at its Stanlow refinery near Ellesmere Port, Cheshire, the company announced yesterday. It will be Shell UK's largest downstream investment for several years.

The plant, known as a long residue catalytic cracker, is to be built as part of a modernising programme which includes the upgrading of equipment and substantial slimming down of the workforce.

The new cracker at Stanlow replaces older less efficient plant, and will produce about 1.2m gallons of petrol a day from between 8,500 tonnes and 9,500 tonnes of North Sea oil.

The design contract has been awarded to Foster Wheeler of Reading. Work is expected to start in January for planned completion by the end of 1987. Up to 800 construction workers will be employed.

The announcement comes with Shell UK well on the way to achieving its planned 1,000 reduction in the workforce at Stanlow to a target of 2,900 next year.

Mr Bob Reid, chairman of Shell UK said yesterday: "We could not support such a large project without the productivity improvements. This shows that by restructuring and accepting change, we can justify re-investment."

At the time of its annual meeting in March Shell UK said it would continue to rationalise its downstream businesses and to ensure that they did not need to be subsidised by the exploration and production business.

## Brussels halts action as Ford agrees to body panel licences

BY JOHN GRIFFITHS

FORD has agreed to grant licences, on certain conditions, to independent UK car replacement body panel makers for all except its latest models. As a result, the EEC Commission yesterday announced that it had suspended proceedings aimed at compelling Ford to grant licences.

Ford's action, taken reluctantly and which it said yesterday would cost it "several millions" a year, means it is unlikely to pursue further court actions it has already instigated against several replacement panel makers for breach of copyright, provided the companies involved apply for licences in the near future.

The independents currently are estimated to account for between £5m and £8m of annual £35m to £40m total trade in Ford replacement panels.

However, the proceedings have been followed with close interest by

industry because of their general implications for copyright and registered design protection.

The Commission's proceedings were begun in early November after complaints by the independents.

The conditions of Ford's offer are that would be licensees should pay a royalty of 2 per cent of turnover until 15 years from the date of the first sale of the vehicle on which replacement panels are based.

In addition, it will require an additional royalty of 1 per cent for six years, from the date in which a licence is granted, in respect of those panels which have been the subject of its court actions.

Mr David Mers, chairman of the Motor Panels Manufacturers and Distributors' Association, last night said he was not prepared to comment on the details of Ford's undertaking but welcomed the fact that further litigation would not apparently proceed.

## Peugeot Talbot launches fleet market campaign

PEUGEOT TALBOT, French-owned motor company, has placed

long-term appraisal cars with 350 of the UK's larger fleet operators as part of its strategy to regain a presence in the fleet market, using a new model range, the 309, John Griffiths writes.

The company said yesterday that the Rytan-assembled 309, which is to be sold in seven different versions, will go on sale in the UK on February 8.

It is the first of several new models by which Peugeot Talbot hopes to increase its UK market share by 1 per cent a year, leading to a doubling of its current 4 per cent to 8

per cent by 1989.

The company said the 309, a five-door hatchback, will compete with a broad spectrum of rival models. It is being produced in 1.1, 1.3 and 1.6 litre forms. A typical competitor to the smallest capacity model is seen as the basic Vauxhall Astra 1200, while the top model would compete with cars like the Ford Orion 1.6 Ghia.

Increased penetration of the fleets, which account for more than 40 per cent of all new car sales in the UK, is seen as vital to the company's future.

The 309 is the first UK-assembled car to be badged as a Peugeot.

## Britain to offer more soft loans for export projects in China

BY FRANK GRAY IN LONDON AND ROBERT THOMPSON IN PEKING

BRITAIN is prepared to boost substantially its aid and trade support for British projects in China, Lord Young, the UK Employment Secretary, said yesterday.

Lord Young, whose week-long mission to China ends today, said in Hong Kong a new soft-loan facility would add to a commitment of £100m made earlier in the year. It is understood that the new loan pledge could add as much as £100m more to those funds already available to support British exports to China.

Such aid, part of which would be supplied by British banks, would make China one of Britain's chief recipients of aid-supported export finance administered by the Overseas Development Administration (ODA).

Through 1984, China had only received £561,000 in technical co-operation funds from the ODA, India, at £148.5m, was the chief ODA recipient, and Bangladesh received £33m in ODA support.

ODA and trade officials in London yesterday would only say that a "substantial increase" was planned, but officials close to Lord Young's mission indicated it could be at least double the existing outlay.

The current £100m offer is for 20-year loans, to help to finance large projects involving British companies, with a five-year grace period at an interest rate of 5 per cent.

Under terms of the £100m facility, Britain and China have agreed in principle on six major projects to be built in China, Lord Young said.

These include a coal-fired power station, refurbishing of a tractor factory and four other projects in the equipment and machinery fields. The additional loan pledge could support another 20 projects, which include a rural telecommunications project in Sichuan province, an optical transmission equipment project in Shanghai and "further afield, a very large telecommunications development in the Yangtze delta."

Other projects envisaged include a container port, an aluminium smelter and a major underground project, Lord Young said.

Lord Young's mission was focused on high technology and electronics sector and included managers from such companies as GEC, Ferranti, Racal, STC, Plessey and Cable and Wireless.

It remains to be seen how much of the loan facility is to be taken up. The ODA provision enables banks to make concessional loans but requires British companies to make applications to the Department of Trade and Industry.

A House of Commons select committee report on China trade last July noted with alarm that Britain's share of trade among OECD nations with China was just 3 per cent through 1984 and was valued at \$432m.

Lord Young said bilateral trade for the first 10 months of the year was valued at £590m for the first 10 months of this year.

## Pension reforms meet qualified support from life companies

ON THE FACE of it, this week's

White Paper (government policy statement) on pension reform offers unlimited opportunities for life companies. The proposals for employees to come out of their company scheme and the State Earnings-Related Pension Scheme (Serps) and make private pension provision offer a vast potential for life companies to market such contracts.

Indeed, Legal and General Group predicted a substantial growth in private pensions coverage. The Association of British Insurers (ABI) said the development of company pension schemes and personal pensions side by side would be facilitated by the proposals to simplify the contracting-out conditions.

Life companies have a near monopoly in the individual pensions market. They also provide services for most small company pension schemes on both a defined contribution basis, with benefits linked to final salary and on a money purchase basis, where contributions paid are invested and the accumulated sum used to buy a pension.

Mr Norman Fowler, Social Services Secretary, has cleared the way for both personal pensions and small schemes. He has simplified the rules so that both types of pension can now contract out of Serps. At present, only final-salary defined benefit schemes can do so.

Schemes set up during the five years from the changeover date in April 1988 will get a bonus contribution boost from the National Insurance fund during that period.

So why are the life companies tempering their enthusiasm? National Mutual Life, a company that has been recently aggressively marketing small-company money-purchase plans welcomed the proposals subject to urgent clarification on the details of personal pensions.

First, there is the official ending of the life-company monopoly in individual pensions - a monopoly conferred by the Department of Trade and Industry and the Inland Revenue.

However, Mr Fowler and the Department of Health and Social Security (DHSS) have no hesitation in naming banks, building societies and unit trusts to be allowed to offer both group and personal pensions.

The ABI in its submissions to Mr Fowler pointed out that life companies must conform to insurance-

Eric Short looks at the likely effects of the Government's proposals to change the pension system

company solvency requirements - requirements that have recently been strengthened under EEC rules.

The ABI has claimed that any other pension providers should also conform to such strict solvency provisions.

However, investor protection comes within the DTI's remit. Life companies and unit trusts will have their own self-regulatory body - the Life Assurance and Unit Trusts Regulatory Organisation (Lutro).

Intermediaries selling life company and unit-trust products come within the Life and Unit Trusts Intermediaries Regulatory Organisation (Lutro).

Banks and building societies will be subject to different regulation. The principle of equivalence of treatment to ensure uniformity between the organisations has to be considered. But life companies fear their sales operations will be more closely controlled than those of other bodies.

The third main item in the White Paper is the Government's insistence on unisex annuities for pension contracts. Under the money purchase arrangement, an employee at retirement has to use the accumulated pension savings to buy an annuity.

The White Paper repeats its Green Paper discussion document proposal that there must be equal pensions for men and women for equal contributions.

The ABI and the actuarial professional bodies lobbied strongly against that proposal, which is very

much in line with an EEC directive, since it overturns 200 years of actuarial practice. Under practice lower annuities are paid to women because they have a longer life expectancy than men.

The life companies fear that proposal for two reasons. First, it will distort the market. Introducing equality will not alter the fact that women live longer.

Equal annuities mean that men get less pension than market forces dictate, while women get more. One can see certain life companies offering enhanced annuity rates providing they are not sold to more than a small percentage of women.

The second fear is that the proposal will be the thin edge of the wedge for completely unisex rates. The White Paper states that the unisex annuity rate will not apply to benefits secured by additional voluntary contributions. But how can life companies offer equal annuities on one class of business and not on another?

The White Paper, however, also contains little items that will have just as much impact on life companies as the major statements.

On investor protection, powers will be taken to control administrative charges and permitted investments for personal pensions.

During the debate on personal pensions, the high level of charges made by life companies on their contracts has been emphasised.

Figures of some 16 per cent of contributions were put forward in an effort to discourage the personal pension concept. Instead, Mr Fowler has reacted by imposing controls over charges.

However, the responsibility for life-company operations rests with DTI.

According to the rumours, DHSS is considering limiting to 5 per cent expense loadings on personal pensions, to ensure that an employee's contributions do not disappear in charges.

That in itself will strain companies offering personal pensions and the life intermediaries selling them.

The White Paper also talks about controlling permitted investments for personal pensions. The DTI has laid down certain investment controls on solvency concerning individual assets. The DHSS controls are likely to include limits on equity holdings.



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November 26, 1985

New York, New York

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## EUROPEAN BANKING

# Two French private bankers wait for a new government

BY DAVID MARSH IN PARIS

TWO WELL-KNOWN French bankers who were displaced by nationalisation in 1982 from loss-making family-owned banks, may be using de-nationalisation moves from 1986 onwards to complete a comeback on the French financial scene.

Mr David de Rothschild and Mr Jean-Marc Vernes, former chairmen of Banque Rothschild (now renamed L'Europeenne de Banque) and Banque Vernes, have already during the last two years been redressing their fortunes by building up profitable banking ventures in Paris. While the Government and other parts of the nationalised banking sector have been preoccupied with injecting fresh capital into the former Rothschild and Vernes banks, Mr de Rothschild has established P.O. Banque, a small merchant bank with capital and reserves of about FF40m.

Mr Vernes through his holding company, Societe Centrale d'Investissements (in which Mr Marcel Dassault, the long established and wealthy French aviation entrepreneur, also has an important stake) has acquired control of Banque Industrielle et Commerciale du Marais (BICM), with a share capital of FF100m (\$12.95m). All this has been happening during the 1982-84 period in which the two men's former banks have chalked up large net losses of FF1.27bn, a lot of which was due to ill-advised business and property ventures undertaken before nationalisation.

Mr de Rothschild and Mr Vernes have used generous compensation payments from the state—which paid FF500m to take over the two banks—to help finance their new, profitable, banking ventures.

Possible sales of state stakes in nationalised banks and industry, which could follow the return of a right-wing government in general elections next March, may give both men further opportunity to extend their new financial empires.

Mr Vernes says he is "open" to all possibilities. One of the opportunities which he will be examining is acquiring, with allies such as Mr Dassault and Mr Jack Francis, the head of the Compagnie Industrielle holding company linked to Mr Vernes' group, a sizeable stake

in the nationalised Compagnie Financiere de Suez financial and industrial holding company.

Mr Vernes, who is on friendly terms with two of the principal opposition leaders, Mr Valery Giscard d'Estaing, the former President, and Mr Jacques Chirac, the Mayor of Paris, says Suez will need a strong shareholding structure after denationalisation to prevent the possibility of an unwanted takeover bid from a foreign bank. A stake of 20 to 25 per cent in Suez—whose total capitalisation is estimated at FF11bn—held by Mr Vernes and his allies would give it the necessary protection, says Mr Vernes. Suez should not be sold to "traders" who would most

likely sell their stakes later on, but rather to a group which would hold its participation "in the best interests of the nation," Mr Vernes argues. "Under a liberal government, the shareholders will have the liberty of choosing the chairman (of Suez). It should not be exposed to the possibility of an unwanted bidder. Suez needs a (shareholder) association to give it stability," says Mr Vernes.

Although he has less definite plans, Mr de Rothschild believes denationalisation will also present acquisition chances. The French Rothschild family's business interests—including the

holding companies Paris Orléans and France Erap as well as the unquoted P.O. Banque—could come up with \$30m to \$50m of investment capacity to acquire assets which may come on to the market from denationalisation.

The optimistic state of the Rothschild and Vernes business fortunes is in sharp contrast to the dire position of the family groups when they were taken over in 1982.

L'Europeenne de Banque has since come under the wing of Credit Commercial de France, while Vernes has been absorbed by the Suez group. L'Europeenne de Banque made net losses of FF237m in 1984 after deficits of FF97m in 1983 and FF320m in 1982. It also in 1983 transferred to Suez FF505m in loss-making industrial assets. For 1985, L'Europeenne de Banque is expected to make net profits.

As for Vernes, a 51 per cent subsidiary of Suez through its Banque Indosuez banking arm (the state retains the other 49 per cent) a slim net profit of FF12m in 1983 was turned into net losses of FF161m in 1983 and FF370m last year as a result of heavy provisions. Mr Jean Peyrelevade, the chairman of Suez, which has already injected FF30m into Vernes to redress its balance sheet, says: "The French Rothschild family's business interests—this year, even though Vernes' name back on the

is making an operating profit. Mr de Rothschild says the takeover price for Banque Rothschild of about FF400m represented a "fair" deal. The Rothschild family received a 35 per cent share, representing the stake of the three branches of the family in the bank.

The liquidation value of Banque Rothschild would have been higher, Mr de Rothschild points out. But he says, "Looking at it as a going concern, I never said it was a bad deal. I'm not sure whether it was a good deal."

Mr Vernes says the FF100m price tag put by the Socialist government on Banque Vernes was not "despoliation" but still was "less than it was worth." The Vernes family received 33 per cent of the takeover price, which Mr Vernes put towards his stake in BICM.

As for the future, both Mr de Rothschild and Mr Vernes are self-assured. There is a need for small French merchant banks, says Mr de Rothschild. P.O. Banque's profits were a few hundred thousand francs last year, reflecting the bank's start-up in July 1984. This year, pre-tax profits are likely to be about 20 to 30 per cent of the bank's net worth, with business expanding in the areas of portfolio management, where assets under control total about \$300m, and corporate finance. Mr de Rothschild's target is to turn earnings in three years' time of 50 per cent of net worth—which by then he believes will total about FF40m to FF50m. At BICM, Mr Vernes expects FF15m to FF16m net profits this year compared with FF8m last year. Mr Vernes' burning ambition is to win back, after a likely change of Government next year, the name of Vernes for his new bank.

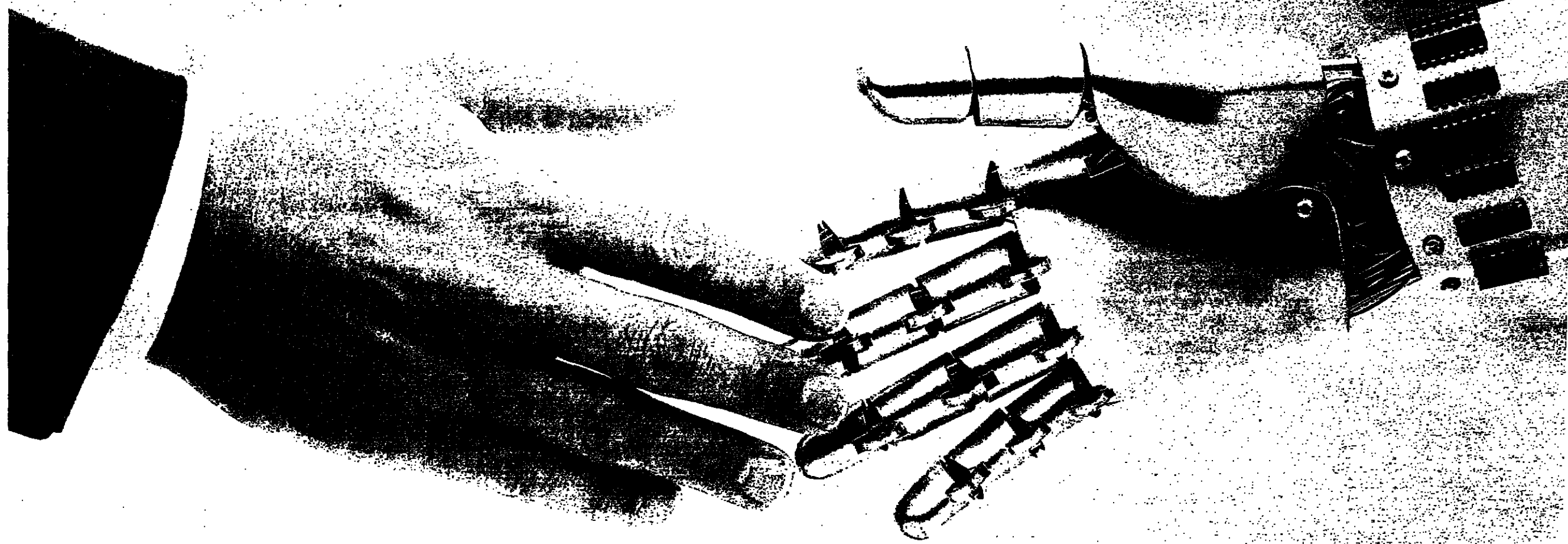
Mr de Rothschild is also yearning to operate under his own name again. Although a statue of James de Rothschild, who set up the family's Parisian business in 1817, adorns P.O. Banque's modern office entry hall, Mr de Rothschild was given his banking charter by the French authorities last year on condition that he did not re-use the family name. "It was difficult to get the charter and the name at the same time," he says. "We wanted the name and the charter as it is more Rothschild. But in 1987, we would prefer to get the name back on our door."



David de Rothschild: yearning to operate under his own name again

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## THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

ARBObYL is a British-registered company with a strong Italian flavour, and its main activity in Spain. Practically unknown by its own name, it has group sales approaching £100m a year and more than 4,000 employees. Its line of business is extremely unusual: taking over operations that multinationals are desperate to get rid of, even if they have to pay to do so.

The company describes itself as "an experienced management team specialised in turn-around situations," and its aim as "exclusively to take over and restructure companies in severe financial and operational difficulties."

Arboby is the new force behind the company still known as Westinghouse SA (Wesa), the former Spanish subsidiary of Westinghouse Electric Corporation of the US and a leading producer of heavy electrical equipment for the Spanish market.

The new management's "aggressive" approach (Arboby takes pride in the word) is already making its mark with surprising novelty ideas. Alongside the generators, transformers, switchgear, locomotives and motors which have made up the business up to now, Wesa is branching out: electric buses, one day, possibly, helicopters. And in the land of Don Quixote, Arboby is thinking of re-inventing the windmill: a project to manufacture a new system for wind-generated power could, it says, bring orders equivalent to Wesa's current £40m annual turnover.

When it agreed last year to take over Wesa, with its five factories, Arboby was making its first move into Spain. It now has more than half its turnover in Spain and sees itself becoming increasingly Spanish-oriented. Having started in Italy, it regards Spain on the eve of EEC entry as being in a similar situation to Italy 10 years ago, with companies in urgent need of adaptation but faced with stiff trade union resistance.

Arboby does not boast either financial muscle or technical expertise. Its share capital stands at £5m—increased recently from £2,000, by capitalising retained earnings. The company itself is made up, according to Nigel Hawker, one of its two directors and managing-director of Wesa, of "half a dozen trusted executives, more or less."

Arboby had a hard time persuading Spain's Socialist Government of the honesty of its intentions. This year it ran into a similar wall of scepticism in Belgium, where it was negotiating to take over another Westinghouse subsidiary, Ateliers de Constructions Electriques de Charleroi (Aoc).

## Arboby - picking up the pieces

David White reports on a company which takes on others' unwanted activities



Nigel Hawker

There the Belgian Government turned it down in favour of another solution. But in Spain the only alternative would have been liquidation.

At the time of the takeover, which came three years after the first contacts, Wesa's losses were 10 per cent of turnover and it had obtained temporary court protection from its creditors. The US parent, which had been obliged to plough in more and more capital, was frustrated at being unable to reduce the workforce in line with the reduced demand that resulted from cost-cutting by the State railways and a drastic trimming of Spain's nuclear energy programme. Since taking over its Spanish licensee in the late 1960s, it had never received a dividend.

The company has been separated from Westinghouse's other Spanish activities in defence and nuclear know-how. For the sake of appearances, Westinghouse Electric retains a buy-back option and is ceding its shareholding in two stages: 42 per cent at first and the remaining 58 per cent after the end of this year. But it has already given up its voting rights. Officially, the shares changed hands at a nominal price. But financial assistance from the previous owner is reckoned to have been more than enough to cover Arboby's initial commitment to invest Ptas 200 (£2.7m) in Wesa.

Arboby's strategy of starting out on a "negative cost basis" translated last year into a £7m profit received at parent company level. But what can an organisation like Arboby do from now on with a company like Wesa that

Westinghouse Electric could not? Hawker, who counts on there always being a market for heavy electrical equipment, believes an agile and independent management has at least four advantages over a multinational: it does not have to fit in with a larger group's strategy on products and markets; it does not have to refer decisions to head office; it can be tougher on labour; and it does not have to comply with US as well as local laws.

Arboby, Hawker says, is already making its name in coping with businesses that have been total disasters. For every deal it closes, it claims to receive 20 contacts.

Its origins were in the GMR group run by flamboyant Italian entrepreneur and Seychelles resident, Giovanni Mario Ricci. After some political

rumblings over the takeover of Autovox, a former Motorola offshoot, in Rome, Ricci sold out and the companies controlled by GMR were taken over by the new Lugano-based company, Arboby, in 1983. The shareholders of Arboby are believed to be Italian friends of Ricci.

Hawker, a 38-year-old Canadian-trained British accountant, was working for a US group in Italy when GMR took its operations over. He switched horses. His home and family are in Nice, from where he commutes every week to Madrid.

After disposing of some of its interests, Arboby now controls four companies. In Italy it has Sime, an electric motor producer taken over from Ranco of Ohio, and International Plastics, a plastic-bag manufacturer which used to be part of the

Mobil Group. The former makes profits and the latter, which Hawker says was losing 25 per cent on sales without taking interest expenses into consideration, is expected to come out of the red this year. In Spain, it added RE-Con, a motor components unit formerly belonging to the Singer company, just over a year ago.

Because of the Spanish acquisitions, its industrial operations are making an overall loss. Wesa is by far the biggest challenge it has taken on. An early retirement plan has reduced the labour force by 330 to its current level of 2,500, but Hawker reckons that on current business levels it still has at least 800 too many. He is counting on state aid for the electrical capital goods sector to help pay for voluntary redundancies.

Installed in the company's dingy headquarters in the old-fashioned commercial centre of Madrid, he is trying to overcome what he describes as "a profound lack of business mentality" in the organisation. When he arrived, he says, there were three uniformed chauffeurs to salute him. "Now, thank God, we've only got one."

He found the Spanish executives to be good technicians, but accustomed to simply passing on orders. The company has, for instance, been making railway engines for 50 years, but has no in-house capacity for designing them and is still manufacturing only under licence, from other, foreign, manufacturers.

Of the top six managers, three have either been fired or resigned; they did not, Hawker says, fit in with Arboby's "aggressive entrepreneurial approach." This is par for the course. "Our experience is that half the top management leave because they can't stand our style."

The first fruit of the new "hungry" approach was the landing of a contract from the Moroccan City of Casablanca for electric buses — which Wesa has never made. Hawker admits openly that a US concern, "with the way US companies are obliged to do business," would have been unable to clinch the same deal.

But the need to find products adaptable to Wesa's industrial installations and to its human capacities limits the opportunities for diversifying. Along with its competitors, it is negotiating a plan with the government to reorganise electrical capital goods and define each company's role in the industry.

In the meantime, Arboby appears undeterred by its continuing heavy losses at Wesa. Another Spanish acquisition, Hawker says, is on the way,

A FEW YEARS from now, John Burns could be quite a wealthy man, but for the moment he is thinking much harder about the risk of sinking beneath a mountain of debt. "Investors like it this way," he says. "It gives them a substantial degree of comfort to see that management people have mortgaged their children's education to buy their equity. They want committed people."

Burns is chief executive of Vista Chemical, a Houston-based commodity chemicals group which used to be part of Conoco, the oil company acquired by Du Pont in 1981. Courteous, articulate, impeccably turned out, he and his top management team would merge smoothly into any of the big US corporate bureaucracies. But today they are on the defensive, minority participants in the group's equity following a management buy-out 17 months ago.

Vista achieved its independence in a \$500m deal that was then the biggest management buy-out of a divisional unit of a large public company. The deal was put together by E. F. Hutton, the Wall Street investment bank, in what appears to have been a fairly standard fashion. Although Vista has not given precise details of the financing, probably around 60 per cent of the purchase price was put up by the banks in the form of variable rate debt with a first charge on assets, a further 30 per cent by institutions as fixed rate subordinated debt, and the residue as equity held by the institutions, E. F. Hutton and managers.

In many ways, the newly-organised company was a typical product of the buy-out phenomenon. Du Pont did not want to retain the division because it was anchored in mature markets — PVC plastics and detergent additives — without any prospect of above-average expansion. The buy-out investors, on the other hand, saw stability and predictability in these same low growth characteristics.

In the event, the first year turned out to be anything but predictable. Indeed, within a few weeks of going independent, the senior management was scrambling to cut costs in its PVC division as prices plunged to near break-even levels. They had seen nothing to compare with the collapse before, and it "certainly got everyone's attention and probably scared a few people to death," says Burns.

The crisis also brought home the realities of ownership. There are 39 managers in the Vista buy-out team, and between them they own a little under 10 per cent of the equity of \$50m — an average of a little under \$130,000 each. To buy their piece of the action, many of them have had to go deeply

## Vista Chemical

## Confronting the unexpected

Terry Dodsworth on a US buy-out



Within a few weeks of John Burns (right) and his management team buying Vista from Conoco, PVC prices collapsed

into debt with their bankers. The profits potential of eventually re-floating a \$500m company on such a limited ownership base hardly needs to be stressed, but the risks in the leverage proved to be equally daunting at a time when the prospects for one of the main product lines began to look sick.

During the PVC price slump, which suddenly vanished after some of the less competitive companies were shaken out of the market, the Vista management team reacted in ways they would not have recognised under Conoco.

"We formed task forces, eliminated all kinds of fixed costs and identified quality issues," says Burns. "We solved more key problems and made more progress in the next six months than we had in the previous six years."

This reaction reflects a cultural change which has swept away many traditional big company attitudes at Vista. The plush new headquarters, built in Conoco days to the spacious standards of a go-go industry, is a palpable reminder of the sort of corporate environment which bred the Vista management team. But senior managers say that the mood changed rapidly once the buy-out had gone through.

To some degree, this adaptation was involuntary, a subtle shift in attitudes to work

under the stimulus of a more loaded system of risk and reward. "Up to this time we have been more awed by the responsibility than the thrill of ownership," says John Weidner, director of finance and employee relations. "But do we work harder? Yes... believe me, it is better to be one year into a buy-out than just starting one."

There was also, however, a deliberate attempt to adjust the company to its new status as a much smaller business responsible for its own destiny. The management decided to cut out a variety of perks they had regarded as normal or even essential in the past. Says Burns: "In big companies managers find ways of justifying these things in terms of entitlements. But we decided they were really not related to making money."

Langford, a tall mid-Westerner who oozes enthusiasm, concedes that both of Vista's product lines face competitive pressures, with the detergent products challenged by new processes, and PVC increasingly exposed to the challenge of overseas manufacturers. But he argues that the group is in much better shape to defend itself than ever before. "Conoco and Du Pont are very good companies, but particularly Du Pont had this inward way of looking at things where people performed in certain ways to get promoted. We have a much more workmanlike atmosphere here today. We are competing with people who are sitting there worrying about the next reorganisation or getting their memos in on time. Sometimes it's like shooting ducks on a pond."

These Notes have all been sold and this announcement appears as a matter of record only. December, 1985



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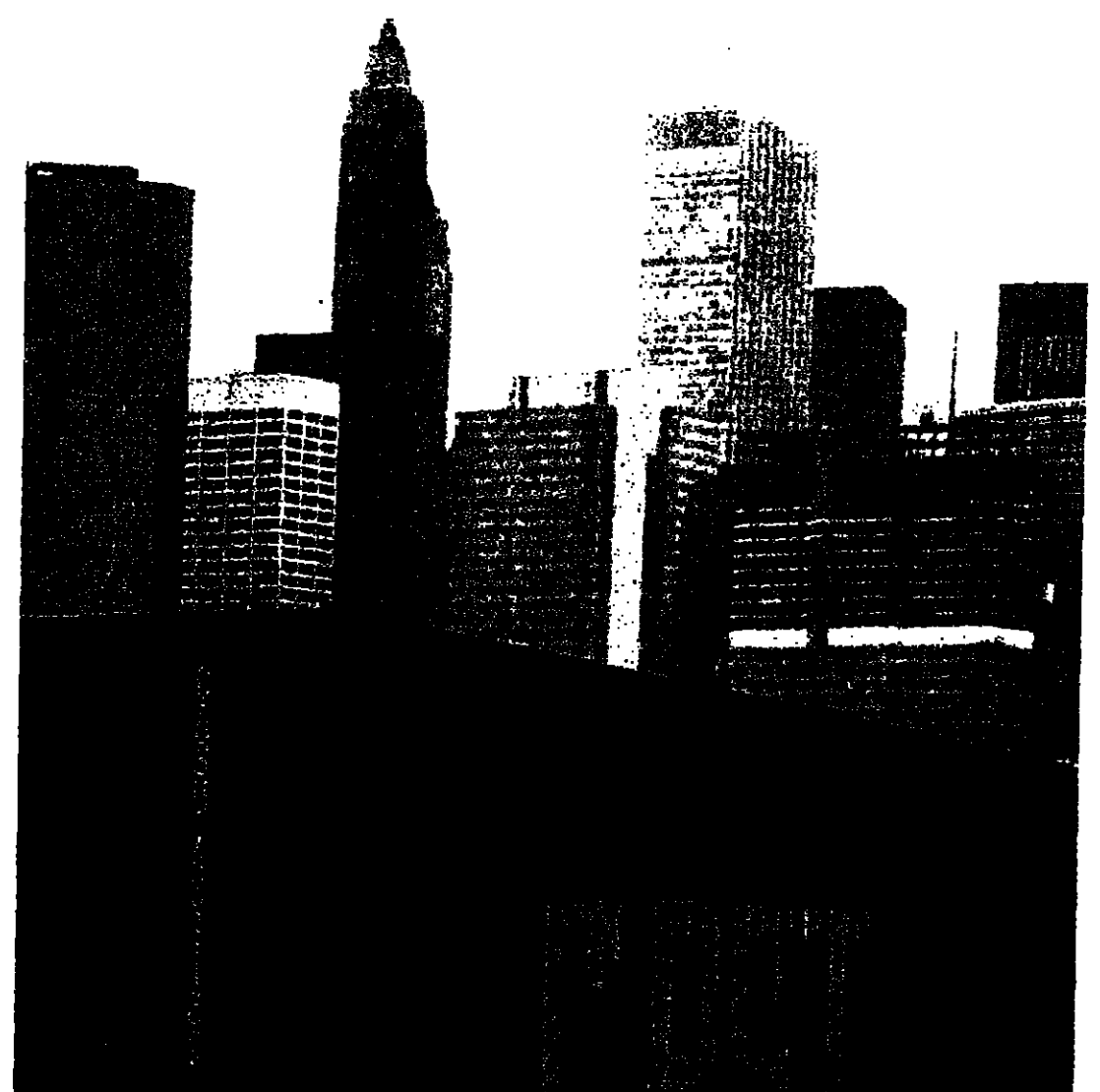
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## FINANCIAL TIMES

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Wednesday December 18 1985

## Moral hazard of the Bank

The British government has grappled with an age-old question—'Quis custodiet ipsos custodes?'—and provided an answer in its White Paper on banking supervision: the Bank of England, which will continue as the supervisory authority in London, will in future have its own activities supervised by a new Board of Banking Supervision.

This supervision, together with the closer co-operation with bank auditors which has already emerged in the Leish-Pemberton report on Johnson Matthey Bankers as a high priority, should certainly help to prevent the kind of errors in supervisory policy which allowed the JMB affair to happen. JMB was an upper-tier bank, and supervision here was, as it turned out, altogether more gentlemanly. The Government will not only install a Board to prevent this kind of clubbiness, but also abolish the two-tier system.

So far so good; but while the White Paper thus answers some urgent questions about the Bank and its supervisory role, it leaves some supervisory questions unanswered, and does not at all address some still more fundamental questions about the relationship between the commercial banks and the investing and depositing public.

## Effectiveness

So far as can be judged from the White Paper, the Government's aim is simply to make the present system work better—a system based on maximum information for the Bank of England, and minimum information for anyone else. There are strong arguments, however, for changing the basic aims of the system, both for the protection of investors and, more importantly, to avoid what has become known as moral hazard. In short, the Government should give more stress to another classical tag—caveat emptor (or in this case, caveat depositor). The unsolved supervisory questions are mainly concerned with manpower and training. The powers of the new Board—and especially the fact that the Bank must inform the Chancellor if it wants to give any advice from the Board—look adequate; but its effectiveness will depend very largely on how it is manned and staffed. Despite the presence of "outside" professionals, it could too easily become a City's taste for having

all its gamekeeping done by ex-poachers.

Equally the Bank itself will be more fully armed with powers to require information, backed with criminal sanctions against those who try to mislead it; but the effectiveness of these powers will be no higher than that of the staff who deploy them. The Bank's own supervisory staff will be raised from 100 to 125, and more highly trained, which does not look adequate for a major international centre of the kind of revolution. Equally, it would be comforting to know they could tap the advice of specially qualified bank auditors, as in some other countries; in Britain the task is left to general accountants.

## Creditworthiness

However, the most important issue is not addressed at all, except in a fatuous sentence of advice to depositors to remember their own responsibilities. Depositors cannot choose wisely without information. The US depositor (we are concerned here with the large-scale professional deposits) can look up consolidated figures breaking down a bank's loan portfolio by country, details of loan loss provisions in the profit and loss account, and reserves against questionable loans in the balance sheet, of non-performing loans regarded as recoverable, a breakdown of income and expenses, and a clear figure of free reserves. None of this information is required of British banks—except, ironically, three of the four clearers, who have chosen to issue securities in New York and thus to meet the NYSE standard.

Full disclosure would fulfil a number of functions. It would act as a discipline on management, would enable the market to make adequate analysis of creditworthiness, and would assist the supervisors—a sudden surge in demand for official credit facilities is often the first sign that there is suspicion at large in the market. Most important, it attacks the problem of moral hazard, the carelessness which arises because depositors feel sure that any information bank will be bailed out. That is indeed something near a moral obligation on the Bank of England as long as it maintains a monopoly of the information which might have warned depositors. Secrecy is world leader in hazard to central banking itself.

## Japan's industry spreads abroad

THE DECISION by Komatsu, the Japanese manufacturer of earthmoving equipment, to start making its products in the UK is part of a familiar modern tale of trade between Europe and Japan. All the elements are there: aggressive Japanese marketing, the inability of the European companies to respond, protectionism, followed by Japanese direct investment to get round that protection and to diffuse it.

Between 1979 and 1984 the Japanese share of the British market for hydraulic excavators rose from 3 per cent to 41 per cent of which Komatsu had 12 per cent. Under this degree of pressure 19 European manufacturers urged the European Commission for anti-dumping action against Japanese exporters. Their claim was eventually upheld and a massive fine imposed, found itself contending with an extra 26.6 per cent of import duty.

With this background it is hard to present Komatsu's decision to create a 270-man factory near Newcastle-upon-Tyne as part of a natural Japanese tendency to invest abroad, driven by considerations of competitiveness and comparative advantage. Like the UK television plants built by the Japanese electronics manufacturers in the 1970s, or Nissan's hugely publicised decision to start building cars in Britain, Komatsu's move will doubtless be viewed with great suspicion by its European competitors. It will be called cosmetic, a token presence, and critics will claim that while 60 per cent of Komatsu's British excavators will be sourced in the UK, this will be the simple 60 per cent—the sophisticated hydraulics and engines will be shipped in from Japan.

## Investments

Yet, despite the undoubtedly poker element, there are good reasons for being enthusiastic about Japanese investments of the Komatsu sort. They will make steadily more conventional economic sense over time. The marked strengthening of the Japanese Yen is already eroding the artificiality of Japanese manufacturing investments in Europe. Teruyuki Yamazaki, whose machine

tool company is currently constructing a controversial manufacturing plant in the UK, said yesterday that at Y270 to the pound Yamazaki could probably start exporting machines tools from the UK to Japan. The rate is already down to Y260.

The trend towards the automation of production gradually increases the incentive for manufacturers of any nationality to produce in the most cost and efficiency of labour become less important. Whether artificially triggered or not, investments of the Komatsu type bring benefits far beyond the small number of net jobs created. They provide live demonstrations that there are workable alternatives to the ingrained attitudes and relationships of British workforces, managements, and unions. They give component suppliers through their assiduous attention to quality. They probably provide a more direct and visible incentive to European competitors to respond than imports do.

## Leadership

Conversely, such investments involve Japan more directly in the political and economic realities of foreign countries. They probably improve the atmosphere for free trade in that they modify the perceived role of Japanese companies from marginal suppliers which price aggressively and direct their products at markets in opportunistic fashion, to companies more steadily committed to competing fairly and in sustained fashion in the European market.

The clinching argument for welcoming Japanese direct investment, however motivated, is that Japan is now without a number of important industries, and that for Europe to discourage the physical presence of these Japanese industries is to deny itself their leadership in the pharmaceutical, motor, domestic appliance and computer businesses. The UK achieved a number of prosperity by embracing American inward investment. By taking over a factory abandoned by Caterpillar of the US, Komatsu has simply emerged as a new star of an established tradition.

SLOWLY, inexorably, the time bombs of the UK Government's labour legislation are ticking away under Britain's trade unions. That they are then exploding mostly in the face of the TUC as government design, not accident.

Mr Jack Jones, the former general secretary of the Transport and General Workers' Union, and no mean backroom legal drafter himself in the days when some thought his job more powerful than the Prime Minister's—made a telling, one word judgment of the Conservatives' careful piece-work strategy of employment and trade union law. "Clever," he called it.

Part of that cleverness lay in its tactic of embedding what looked like innocent almost irrelevant measures in a package of larger change. So the restrictions on picketing and secondary industrial action in the 1980 Employment Act, the time seen as the Act's main threat to unions at the zenith of their power—turned out in practice not to be the sword on which the unions impaled themselves.

Instead, it has been the derided provision of public funds for ballots, almost unnoticed when the 1980 Act was passed, which has led the unions to the precipice. Today, the TUC General Council, in full view of the public, is likely to endorse the position struck earlier this week by the elders of the union movement. Do not, Mr Norman Williams, TUC general secretary, told them, jump over, and they did not jump. For once, the left joined with the new, radical right of the AUEW engineering workers' and the EETPU electricians' unions, while the centre-right formed the opposition. It is a tremendously important decision.

The slide towards the precipice started after the 1980 Act was passed, quickened by the TUC's blanket opposition to the law at its assembly conference in 1982, and turned into a headlong rush when the Government's 1984 Trade Union Act forced upon the unions balloting on a whole range of issues. To justify it, the AUEW and EETPU asked: Why resist? Getting no answer, they were ready to take their chances outside the TUC if necessary.

"The most difficult question I have to answer for my members," says Mr Eric Hammond, the usually abrasive leader of the EETPU, "is what does the union get from being a member of the TUC?" That was precisely the precipice: that members of these unions simply did not care about the TUC and the labour movement enough to influence their vote for apparent commonsense—taking money available to fund what they wished to do in any case. To fight against that, by invoking constitutional arguments, how ever sound, about the two errant unions' backing for the Wembley principles has seemed a last cause for months.

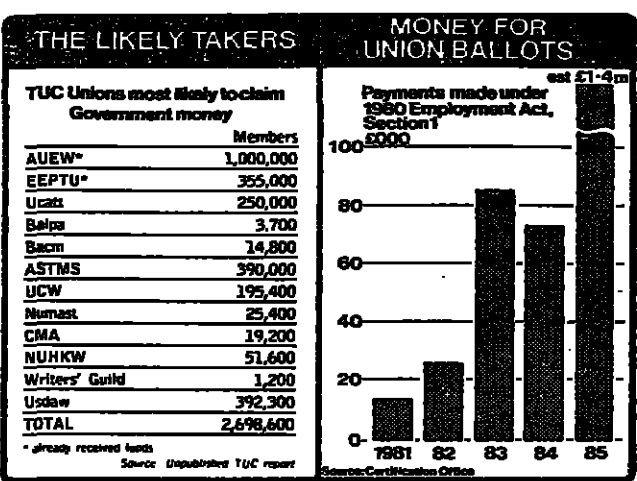
What, then, will be the outcome, both for the world inside and the world outside Congress House? And can these two worlds, which the Government has been so acute in separating, be brought closer together by this week's decisions?

Viewed in one light, the TUC has produced a situation that is a chaotic year—a year which has seen it frozen out of attempting to resolve the miners' strike; reduced to em-



Leading figures in the ballot funding dispute: (left) Gavin Laird, general secretary of the AUEW and Eric Hammond, general secretary of the EETPU

## BRITAIN'S TRADE UNIONS



## Beyond the ballot box, a battle for power

By Philip Bassett and John Lloyd

barraging, stumbling incompetence at its September Congress by both a warring Arthur Scargill and the warring electricians and engineers, and now forced in effect to drop entirely what had been until last week held to be its firmest policy, and its most principled positions.

Arguably, too, this has also been the roar of a movement withdrawing not just from a set of unrealistic policies, but also from a 20-year-old set of assumptions. Based on concrete experience, these suggest that industrial muscles when flexed produce results that a union posture of at least potential insurrection can offer its members both political and financial gain and that union members will respond to a mix of loyalty, class solidarity, self-interest and coercion by leaderships with secure authority to speak in their name.

It is a measure of the importance of the votes this week in the TUC and the TGWU, that all these things are in the melting pot. The huge task facing the British trade union movement is to recover its authority in a society where these assumptions are seen no longer to operate.

Part of that task is already in hand: leadership by vanguards supported by the votes of activists is now being replaced by a plebiscitary democracy of the kind until recently ritually abused by the left. This should help to make the TUC General Council more aware of its reduced role.

Since it can no longer defy, and thus change, the will of the land, the TUC will have to interest itself in taking more modest tricks: trying to secure a bit more infrastructure spending through tripartite bodies

like the National Economic Development Council, or better training provisions through the Manpower Services Commission. If this is new realism again, then so be it; drenched by the General Election result, the TUC grasped at it in 1983, and the miners' strike threw it askew. This time it is more likely to stick.

Reborn new realism, however, will not reshape the landscape overnight; it will not produce a trade union movement whose leaders politely ask for a little

are tumbling—partly because of recession and the failure of the miners' strike, but in large part because of the impact of the pre-strike balloting provisions of the 1984 Act. Ballots on this are here to stay, as a document considered by the employment committee puts it: "It may be difficult to convince many trade unionists, let alone the wider public, that the present provisions should be swept away without action being taken which would place strong emphasis on membership

involvement and participation in union decisions and the use of balloting—particularly on strikes. . . . Simply to remove these provisions, and not introduce some new measures in this area could lead to accusations that unions were diminishing the rights of members, and were undemocratic."

There are signs of relief from Mr Neil Kinnock at this. Some senior Labour Party figures, convinced that to go to an election on a platform of reducing union democracy would be disastrous, had so despairingly changed in the TUC's stance that they were talking seriously of the party distancing itself from the unions, even to the extent of withdrawing from or making moribund the formal TUC

But it will bring change: ● Ballot money. Yesterday the TUC's employment committee approved draft criteria for belatedly sanctioning unions to take public money. So far the AUEW and EETPU have picked up £136m and there is more to come. The EETPU alone has now lodged with the Government's Certification Officer dozens of claims, amounting to about £230,000, covering a series of industrial action ballots, with another claim of £120,000 still to be tabled. Others are lining up to pour through the breach (see table).

● Strike ballots. Strike figures

## Labour liaison arrangements.

To win their strike ballots, unions will have to campaign. Mr Jimmy Knapp, the NUR general secretary, and a firm leftist, went out to his members like a US Presidential candidate earlier this year, urging them to strike to prevent British Rail implementing its proposals to introduce driver-only operated trains. Both sides will now have to interest themselves in similar techniques.

Both sides, too, will have to be sure of their case before going on the stump; flaws in the argument will not stand such scrutiny. Also the outcome of the ballots will enable both to make realistic assessments of their future conduct. Naturally, these ballots will be "about" more than their ostensible subjects: ballots in the public sector, for instance, could easily become a test of the popularity of the ultimate employer, the Government.

● Leadership elections. Ministers believe that full balloting for union executive committees, which the TGWU is now fully implementing in a move which others will follow, is the key reform, ushering in a new roster of moderate leaders. Maybe; but the presuppositions are daunting—that there are sufficient moderates willing to come forward and that if they do, they are well enough organised and financed to pursue a successful campaign.

Ballots may, too, over time, make more public the often subterranean party systems which exist in most unions. Those with overt, well-functioning systems—the AUEW, the miners (where the right has been traumatised), the electricians (where the left has suffered the same fate) are ex-

ceptional: more common is the TGWU model, where "left" and "right" positions are publicly denied and privately fought over and where the hegemony of either left or right is covering but the more right for being so. The engineering workers demonstrate the classic instance of the party system and are proud of it, but in doing so they have produced a rumbustious political culture which many industrial relations managers hate because it produces unstable behaviour around election time.

● Political fund ballots. Yesterday's 9-1 vote by members of the Tobacco Workers' Union to retain their political fund maintains the unions' run of success—27 straight victories in a row. This is an astonishing achievement for a union movement supposedly in a demoralised state, perhaps a reaffirmation that the very methods rejected in the TUC's challenge to the law can still be devastatingly effective. But for this particular area of ballot-based democracy, there was never any suggestion that the unions would defy the law. The Labour Party, which depends on the unions' funds for its finances, could not be left to die by default.

Precisely because of these results, this is the area where the Government is unhappiest. It is already muttering that the unions' pitch in the ballots (funds are necessary to allow the unions to mount general political campaigns when in fact almost all the money raised goes direct to Labour) could be unlawful. Ministers also say the unions have not abided by their agreement to make clear to all union members their right to contract out of paying the political levy.

There is the possibility that this could be the subject of future legislation, though the apparent popularity of the funds, as measured by the ballots, must give the Government pause for thought.

"The fact is," says yesterday's TUC policy document, "that the law is in industrial relations, and cannot now be excluded if it ever could." Or as John Lyons, the influential leader of the Engineers' and Managers' Association, described the ballot funds crisis when the TUC was at the height of its glory in Blackpool: "Intrinsically silly."

That the TUC now recognises the issue as a rock on which it might founder is clear. Whether it has also recognised its moves this week as a beginning, rather than an end, is less so. Time bombs though the legislation may be, the TUC has been fighting a phoney internal one against its own best interests.

The real war for the TUC—the increase in non-TUC unionism, the rise in anti-unionism, the need to respond to the pattern of industrial change, to win members in the high technology and service industries; to win members to trade unionism at all—is still out there, still mostly unfought.

Leaping clear—finally—from the crumbling cliff edge of the unions' formal rejection of the law is a stark battle towards credibility, and from there, towards the potential for renewed influence and power. But unless the TUC and the major unions begin to grapple seriously with the core issues, rather than the peripheral, sheering away from the precipice, they will prove temporary, not permanent.

## Metal men hunted

The British subsidiary of the Canadian Alcan aluminium group has become a surprisingly popular source of boardroom talent recently.

Last month the fast-growing Williams engineering group snapped up John Ford, who used to be British Alcan's deputy managing director, to be its operations director.

Now George Russell, the outspoken managing director, is leaving to become chief executive of Marley, the roof tile group.

Does this reflect tension and trouble at British Alcan? Not at all, according to Russell. He just feels he has done the job he set out to do—the restructuring of Britain's leading aluminium group, following the takeover by Alcan of British Aluminium in 1982, has been completed.

And he boasts that the slimmed-down company now out-performs every other aluminium company in the world, including its parent.

So he was receptive when Sir Robert Clark, who was brought in as chairman of



"I'd like a toy helicopter—made by a European consortium"

## Men and Matters

Marley earlier this year, approached him. "I was at the point of spinning my wheels. And with the age factor (he is 50) there was no chance of going anywhere in Alcan."

He sees his role at Marley, which is suffering from excessive debt following a failed US venture, to "steady it and start it growing again." If he can sell the Pacesetter DRY stores quickly he will be well on his way.

But the real challenge will be similar to that at British Alcan, putting some energy into a rather lacklustre manufacturing group.

Watch for Marley doing rather more advertising on television in future. In his spare time Russell is a governor of the Independent Broadcasting Authority. "I may even find a way to get it cheaper," he muses.

## Envoy on loans

"I feel thoroughly at home in Washington, after all I lived there 14 years," says Alfredo Crespo, the Ecuadorian under-secretary of public credit in London this week to tie up a rescheduling of his country's debts to the British government.

Crespo was educated at the University of Maryland and the George Washington University on the Potomac, and worked at the Organisation of American States and the International Monetary Fund.

Relaxing in the Ecuadorian embassy opposite Harrods, he is a model of that group of US-minded whizzkids who took over the government in Quito two years ago and charmed their way into the hearts of Western financiers weary by Third World abrasiveness.

To complete the image, and lest anyone think he is a mere

international civil servant, he tells of the finance company Finco he set up a decade ago in Quito and later sold to a local bank.

His job as chief negotiator with Ecuador's governmental and private sector creditors has kept his jet-setting image bright. "I've been out of Ecuador for 210 days this year," he says.

Crespo is happy with the welcome he has received in Britain, which practises a sort of Andean Thatcherism—has got in this country. "The deal with Britain? We did it on this table—in ten minutes," he says proudly.

Anderson goes

The US oil industry loses one of its most colourful figures with Robert Orville Anderson's decision, at the age of 68, to step down as chairman of Atlantic Richfield (Arco).

Son of a Chicago banker, Anderson has always been regarded as a brilliant, if sometimes lucky, maverick. And his range of outside interests—stretching from his huge cattle ranches in both North and South America to his 1976 rescue of The Observer newspaper from bankruptcy—marked him out from other oil barons.

But Arco is one of America's most successful oil companies—and Anderson deserves the credit.

At the age of 24, he borrowed \$50,000 to buy a stake in a small oil refinery in New Mexico. Over the next 20 years or so, he became a successful wildcatter and bought and sold refineries.

In 1963, Anderson's Hondo Oil and Gas company was taken over by Atlantic Refining, based on the US East coast. Within two years Anderson had become chief executive and, in

turn, masterminded the takeover of Richfield Corporation, a major oil marketer on the West coast.

His luckiest break came shortly afterwards when Arco struck oil in Alaska's Prudhoe Bay after many bigger oil companies had given up hope. Prudhoe Bay is the biggest oil field ever discovered in North America and it has transformed Arco into the seventh biggest US oil company with assets of more than \$22bn.

For many years, Anderson ran Arco tandem with Thornton Bradshaw, the company's president. They were regarded as one of the best management teams in the business.

Bradshaw left in 1980 to join RCA where he oversaw a dramatic turn-around in the company's fortunes. Two years later, Anderson handed over the chief executive's job to Bill Kieschnik.

But despite these changes, analysts had no doubt that Arco was still "Bob Anderson's company." When Kieschnik, 62, announced his surprise retirement last June, there was widespread speculation that the move had originated in the 51st floor office of Arco's Los Angeles headquarters which Anderson occupied for a couple of days a week.

## High spirits

The Inland Revenue reproaches me gently for suggesting last week that it had adopted a scrooge-like attitude towards Morgan Grenfell's staff Christmas dinner dance. The merchant bank had to pay extra tax on its "benefit in kind."

Corporate Christmas celebrations are not normally taxed. I am told, unless the cost exceeds £35 a head.

"Even allowing for movements in the RPI since 1943," the Inland Revenue press secretary, Sue Tyrrell, adds, in a literary footnote, "I am sure you will agree that it is unlikely Bob Cratchet's Christmas lunch exceeded that level."

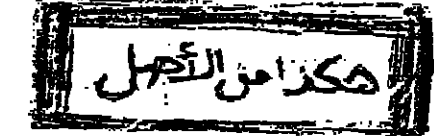
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Anthony Kenny puts the case for Oxford University's college traditions

## Academic productivity by candlelight

IN THESE days of the relentless pursuit of value for money, no institution using public funds can avoid being asked whether it is efficiently managed. Oxford colleges, although not directly publicly funded, are being spurred along with the universities to cost-effective management.

Academic institutions do not like being evaluated in terms of productivity. The Jarrett report alleged that universities were inefficient; but in reaching this judgment it took no account of the function of universities but merely studied their management structures. It suggested that British universities should be made more like British industry. My impression is that in other countries the reputation of British universities stands higher than that of British industry. Be that as it may, the only fair way to assess the efficiency of British universities would be to compare them with institutions in other countries which have the same purposes. This does not seem to have been done.

If Balliol is judged in managerial terms, I do not think it need be ashamed of its record. Workplace relations are excellent: our academic staff work hard and happily for half the salary their skills could

command elsewhere; our administrative, technical and domestic staff have not lost a single hour through industrial action in recorded history. In the detestable jargon of productivity, we can claim, perhaps not with any great pride, that in 1985 we process 501 students in plant which in 1935 catered for 274.

We have a pupil-tutor ratio of 10.9 to 1. Moreover, the amount we have to teach our pupils increases year by year, as new discoveries are made, new theories propounded, new evidence brought to light. One of our economics tutors says that he now has to teach pupils for their preliminary examination the amount of material which he had to cover for his finals papers two decades ago. The increased teaching burden has not inhibited scholarship and research: during the past academic year we produced between us 19 books and many papers in learned journals. Balliol's relation to other

colleges is also relevant. Oxford University is a federation of colleges, as the US is a federation of states. An American wit remarked that the similarity would be even greater if the South had won the Civil War. The system can be unwieldy and has its critics. In a recent article in the Oxford Magazine, Sir Patrick Nairne, Permanent Secretary at the DESS from 1975-81, and now Master of St Catherine's College, complains that college governing bodies are difficult and disputatious; issues which could be settled by the head of the college in five minutes take five weeks to decide. He proposes three reforms: Oxford colleges should be made more like chief executives; there should be a powerful council of Colleges to take decisions collectively.

In my view, Sir Patrick's proposals are of unequal merit.

## BALLIOL COLLEGE FINANCES

Income		Expenditure	
Figures in 2000s			
Endowment	618	Academic	1,094
Fees	300	Premises	258
Boarding charges	294	Domestic	731
Conferences	263		
Other	20		
Total	2,695	Total	1,993

The first reform was introduced at Balliol 17 years ago. Day-to-day decisions are reached not by a governing body of 59 but by an executive committee of 12 (plus six junior members when student affairs are discussed). The system works well. A Council of Colleges, too, would have my support. The welfare of the university as a whole can be damaged by the selfishness of single colleges—as when, in recent years, individual colleges have failed to observe agreed policies about the change-over from single sex

to mixed institutions. Sir Patrick's proposal to make heads of houses into chief executives, on the other hand, seems a very bad idea. I share his impatience (which head of house would not?) with the amount of work necessary to reach collegiate decisions on major matters of policy. But I do not share his confidence that heads of houses would make better decisions. It is to themselves: it seems odd to regard discussion and debate as a hindrance rather than a help to

rational decision-making.

What I am sure of is that concentration of executive power in the hands of heads would destroy the feature that makes Oxford a supremely attractive environment for an academic, namely the fact that a don has no boss. Neither heads in their colleges nor professors in their departments have the powers they would have elsewhere: in general an Oxford don is responsible to no one except to a democratic body on which he has an equal voice with all his colleagues. It is this fact, more than the historic buildings or the candlelight on the silver in the common rooms, which makes first-class academics come to Oxford and stay there for the best years of their lives.

Oxford offers an uncommonly intensive education by some of the most highly qualified teachers in the country, and its output of first-class research bears comparison with any in the world. Add together all the

ways in which money comes to Oxford from the taxpayer—UGC grant, university fees and college fees—and you find that it is not particularly expensive by comparison with other British universities. That this is so is due in large part to the existence of college endowments.

From time to time proposals are made that the endowments of Oxford colleges should be confiscated or diverted to other purposes. Such confiscation would run directly contrary to the Government's desire that universities should receive larger funding from private sources and be less dependent on public funds. In the Green Paper on Higher Education the Government says: "To encourage universities' efforts in this direction, the Government has confirmed that increases in income from outside sources will not lead to reductions in Government funding." Surely the same principle should hold for Oxford colleges

whose endowments are the fruit of centuries of private benefactors. A recent appeal to our old members and others brought in pledges of £2m. It would be a peridious act to take away from the college the gifts thus generously made in good faith.

If the Government were really serious in wishing to enable universities to live on private funds it would revise the tax rules to make gifts to universities tax-deductible, as in America. But the Government has consistently refused to do this. Only last month it turned down a proposal of a Select Committee of the House of Lords which would have made gifts from industry for scientific research tax-deductible.

The complaint most consistently made against Oxford colleges is that they are slow to adapt. In detail, this may be due to the unwieldy nature of some of our structures. But frankly, we are not convinced of the desirability of some of the changes we are asked to adapt to. We are proud and privileged to have inherited a system and tradition of education and learning which is precious and irreplaceable, and we are anxious to preserve its essential elements intact. Master of Balliol College, Oxford.

Paul Betts, in Paris, reports on a new concept in French rail travel

## The age of high-speed nouvelle cuisine

IT COULD have been a VIP lounge at any large international airport. It was instead platform two at Strasbourg railway station. Opposite the new first-class carriage of the Strasbourg-Paris express—known as the "Jean Lamour"—passengers took shelter from the cold damp December morning fog in the lounge where hot coffee was served, newspapers were available, and a woman with a computer organised baggage handling, taxi or hired car reservations, and even a hotel booking if needed.

"The other day we had a rich fellow who arrived in a terrible rush and told one of our people that he hadn't been able to park his car. He gave the official the keys to park it. When he returned from his train journey a few days later, he found the keys with the hostess and his car in the car park without a scratch," said Mr Louis de Vives, one of the chief executives in charge of the new experiment in first-class rail travel launched this winter by the SNCF, the French state railways.

The train itself also constitutes a new concept in first-class

rail travel. The plush carriages combine open plan and privacy. The comfortable armchairs in pastel colours turn to face in every direction. Travellers can huddle quietly in a corner or in groups for business, a game of cards, a snack and a drink.

The restaurant serves the latest in French nouvelle cuisine with the food prepared by one of the country's top new generation chefs. The restaurant is also very expensive and a meal for one of foie gras, scallops, cheese, and chocolate mousse cake washed down with Badollet water and some Alsatian wine costs £40 service included.

In the train, there is a mini-microcomputer for bored passengers to play with. Music cassettes and earphones are also available. One day there will be a telephone and television. In the dining room, the maître d'hôtel and the waiters and waitresses have all been trained by Mr Rene Schumayer, a former maître d' at the Ritz in Paris. The lounge staff have all been trained under the supervision of Mr Jean Gillet, the director of the Hotel Maurice, another Paris palace. Oversee-

ing the smooth running of the journey is a Commissaire de Bord, the rail equivalent of a cruise ship's purser, dressed in pin stripes and bow tie.

"All this is not just a gimmick. It follows more than two years of careful preparation and study," said Mr de Vives. "We were worried about the steady decline in first-class rail travel and decided to test new concepts to attract people back to the first-class. The idea is to offer a complete service starting well before the actual journey and continuing at the end of the trip after the passenger leaves the train."

For SNCF the fall in first-class rail traffic, where margins are much higher than in second class, had become a major source of anxiety. Between 1962 and 1975, first-class rail travel had grown steadily by 45 per cent. But since 1975, it has been declining by about 25 per cent. Ten years ago, first-class accounted for 23 per cent of total rail travel in France. This year it is down to 17 per cent. Several reasons are behind this decline. SNCF officials say that the economic recession is partly to blame. So is the com-

petition from domestic airlines. Air Inter, the main internal French company, now has at least 30 major connections in France and on major routes like Paris-Nice or Paris-Toulouse it uses the Airbus. A third significant reason for the fall in first-class traffic is the SNCF's decision to introduce second-class in the last ten to 15 years.

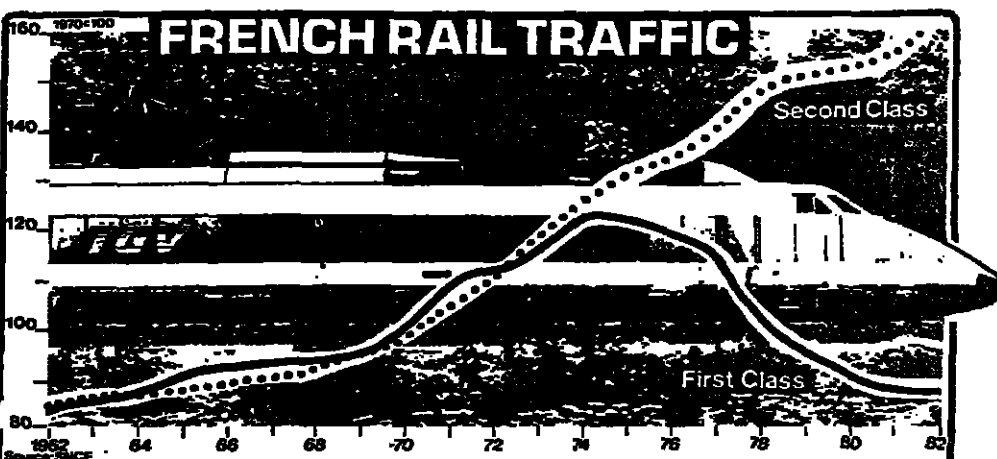
"We made a big effort in second-class and to some extent did not pay enough attention to first-class," said Mr de Vives. Indeed, in the Corail carriages, which SNCF started to introduce between 1972-75, the second-class was considerably improved and the difference with first-class was slim. "People were saying they weren't getting their money's worth. They either decided to travel second-class or left the train for the car or the plane," Mr de Vives said.

With the introduction of the high-speed train (train à grande vitesse—or TGV for short) between Paris and Lyon, the SNCF struck a first return blow to its declining first-class western part of the country, it started experimenting with spe-

cial children carriages—a sort of playground on wheels—to hold on to and increase family travellers. In the East now, it has launched its new experiment to reconquer first-class passengers. So far, there is only one train from Strasbourg to Paris and from Paris to Strasbourg via Nancy a day with the new service. In spring, the SNCF will decide whether to extend the service elsewhere, but already the state railways appear satisfied with its first results.

The SNCF had two alternatives to win back disgruntled first-class travellers. It could either raise the price differential between first and second (at present for every FF100 in second you pay FF150 in first) or upgrade the service in first. "The first was a defeatist policy so we opted for the second. The second also has the merit of seeking to attract what we call leaders, or top bracket people. The question is then not so much one of price but quality. With better service and facilities you can in fact attract people to pay even more," said Mr de Vives.

For the restaurant, the



SNCF persuaded Mr Joel Robuchon, who owns and runs Jamin in Paris, a three-star Michelin guide establishment, to regard as perhaps the most inventive restaurant in the capital, to supervise the cooking. All the dishes are prepared using a new technique under vacuum and then heated by steam oven on the train. Cold dishes are prepared by the chefs on the train. Unlike other meals on trains, SNCF has decided not to subsidise the food in the new first class. "The idea is that the restaurant should pay for itself," a SNCF official said. SNCF already loses FF1.158m a year on its catering operations alone out of an overall deficit this year estimated at FF4.66m.

The new first class—called officially *Le Nouvelle Première*—is already beginning to break even after a few months in service.

Not everyone, however, is enchanted by the new first class. One of the biggest objections is that a traveller used to the old first class is forced to pay 15 per cent more. The restaurant, on occasions, does not live up to the equivalent of a three-star restaurant in town. Under the circumstances, it is not surprising, but at £40 a head it is equally understandable that customers complain. Others would have preferred to see SNCF recreate the golden days of French rail when you could

eat lobster thermidor and then rest on the Blue Train like the celebrated madonna of the sleeping cars.

"But that was absolutely not the point. We did not want to recreate nostalgia. We wanted something very modern, projected towards the future," said Mr de Vives. Indeed, the SNCF sees the new first class as part of the state railways' overall renewal and its preparation for the challenges ahead against motor and air travel competition. And, like the airlines, the SNCF is already considering the introduction at some stage of an intermediate business-type class for those who do not want to travel second or pay the surcharge for the new first.

## Monetary policy

From Mr G. Hoggarth

Sir,—I was interested to read that Michael Beenstock (December 11) has followed the lead of other monetarists, such as Lord Lawson and Samuel Brittan, in adopting the view that adherence to a sterling M3 growth target in order to control inflation is not perhaps such a good idea after all. Beenstock quite rightly points out that an increase in the demand for sterling M3 that follows a rise in bank deposit rates will directly affect prices/nominal spending, but only the composition of an individual's asset portfolio. This criticism, however, of the use of broad money as an intermediate target amongst others, was made by Lord Kaldor in his evidence on monetary policy to the Treasury select committee five and a half years ago at the outset of the medium term financial strategy.

More interestingly, whereas anti-monetarists and even now some economic commentators of a monetarist persuasion favour the abandonment of monetary targeting, Beenstock supports the Government's move in attaching more weight to the narrow measure of money, M0. There are a number of problems with targeting M0. It is a very narrow definition of money, representing only one-tenth the size of sterling M3, and consisting, in the main, of cash held by the private sector. By excluding all bank and building society deposits it is difficult to understand why M0 is deemed to be a useful indicator of potential spending power in the economy. As is the case with sterling M3, in practice movements in M0 growth are not usually associated with a commensurate change in price inflation. With the present high level of nominal and real bank and building deposit rates and the continued rise in the use of cheque books and credit cards, it is hardly surprising that M0 is growing less rapidly than price inflation at present. Most importantly, under the present UK financial institutional set-up, it is generally recognised that M0 (high-powered money) is demanded rather than supplied, determined by the public and not by the government. For example, Charles Goodhart who until recently was a chief adviser on monetary policy at the Bank of England states in a recent book that, "with high-powered money largely consisting of currency in the hands of the public and the latter being demand-determined, the direction of causation runs clearly from nominal income to notes and coin in circulation, and high-powered money." In other words, to me, the statistical evidence is in any case far from clear cut if it is movements in price inflation,

## Letters to the Editor

the policy goal, that lead to changes in M0 growth, the so-called intermediate target.

Given that M0 (along with the exchange rate) is now central to the authorities' monetary strategy, it would be illuminating if the Chancellor, or Michael Beenstock, could explain the mechanism by which a reduction in M0 growth causes a deceleration in inflation. Glenn Hoggarth, Henley Centre for Forecasting, 3 Tudor St, EC4.

## Half baked patents conference

From Mr R. Palmer

Sir,—It was reassuring to see Dr Hermann (December 5) appreciating the reality of some of the problems in the world of patents. Let us hope that our Government will in the coming months replace its previous exhortations and statements of good intent by actions in support of the industrial property requirements of innovators and business in this country. At home we urgently require simplification of patent litigation. Within Europe we should have no half-baked mini-Community patent and our case for locating the Community Trade Mark office in London needs positive action by the UK Government. R. Palmer, 62 Others Battery Road, Winchester, Hants.

## Taper personal allowances

From Mr C. Beattie QC

Sir,—It is important to exempt individuals with small incomes from liability to income tax. Such a move would reduce the administrative burden of collecting tax and might allow PAYE to be abolished, with a great saving in time and trouble to employers. A large increase in personal allowances would achieve this, but the difficulty is that any increase is costly in terms of tax lost, since every individual with an income is entitled to a personal allowance which relieves him from tax at his highest rate. This heavy cost in revenue lost could be much reduced, permitting personal allowances to be much increased, if personal allowances were to be given in full only to individuals with small total incomes, the allowances tapering off to nil as incomes rose somewhat above that small total.

Taking small incomes out of liability to tax is more important than reducing the basic rate

of income tax. That is not to minimise the urgent need to lessen the severe burden of taxes of all kinds borne by individuals and businesses by reason of excessive public spending.

C. N. Beattie, 24 Old Buildings, Lincoln's Inn, WC2.

## Life sales licensing

From Mr H. Palmer

Sir,—Mr A. J. Duggin (December 6) expresses the view that a public row is now raging over the idea for licensing each and every single person, who sells life insurance in this country. Well over 100,000 individuals distribute life insurance, either part time or full time. Amongst others, building society staff, estate agents, travel agents, bank employees, retailers, accountants, brokers and insurance company employees all sell life policies, as do solicitors, who are members of their own profession. Even before the concept of universal licensing, involving wide-ranging examinations, was floated in August by the Marketing of Investments Board Organising Committee (MIBOC), Professor Gower had publicly cautioned against any general scheme for licensing. He recognised the mammoth nature of any such task, due to the very large number of individuals involved and the frequency with which people enter and leave the business.

Following publication of MIBOC's idea, the Office of Fair Trading, the National Consumers' Council and the Consumers' Association have all, independently, issued statements in strong opposition. This is not surprising. These bodies protect the interests of consumers. Consumers would be forced to pay for all of the inevitable bureaucracy, if the scheme went ahead. They would gain very little, if any, advantage.

How do you license, individual by individual, all members of an enormous and frequently changing group of people? How much would it cost? What real benefits will consumers gain? Could these not be achieved in a more practical way?

The Government has announced that rules of business conduct are to be applied to the sales of investments, including life insurance. These rules should certainly make each life office legally responsible for the sales practices of every individual who sells its policies,

regardless of whether or not that individual is employed by that office. Mr Michael Howard, QC, MP, has made clear that the Financial Services Bill (expected this week) will give each individual consumer a new legislative right of action directly against any office, if the consumer is harmed by failure of that office to comply with the rules of business conduct. Such a policing mechanism will protect consumers in a far more effective—and a far less expensive—way than would MIBOC's somewhat cumbersome licensing scheme.

Mr Howard's very practical approach makes MIBOC's idea redundant. Sensibly, Mr Duggin predicted that the Government may reject the whole idea. This is exactly what the Government should do.

Harold Palmer, First Floor, 154 Fleet Street, EC4.

## Helistop in the City

From Mr W. Goldsmith

Sir,—Mr Langmead (December 13) writes, from the Barbican, that the Trig Lane helistop is to be closed due to its proximity to the new City of London School.

No mention is made of its proximity to many of us who have offices and residential accommodation nearby.

I submit that helicopters are far more than a far less of noise nuisance than juggernauts and motorbikes. The infernal disruption to office and home life is totally disproportionate to the convenience of the relatively few helicopter passengers to and from the City.

William Goldsmith, Thompson Lloyd & Ewart, 5 High Timber Street, EC4.

## The world of industry

From Mr R. Garrett

Sir,—Mr Griffith's young graduate former pupil (December 5) "Industry does not attract" is said to have "a firm personality and high intellectual quality" but maybe is somewhat short of modesty and has an ability to come to positive views without considering the subject in much depth. His "family friends" appear to come from the same sort of background as himself and after 50 years in industry I fail to recognise his world of junior managers, pompous administrators, dogmatic accountants and disgruntled representatives of workers.

I suggest that Mr Griffith and his young friend move out sometime from the narrow confines of Jesus College Oxford and see a little of the real world. R. A. Garrett, Marlwood Grange, Thornbury, Bristol.

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# Channel Islands

Money is pouring in as this off-shore haven develops into an international finance centre.

But fears are being raised over pressures on resources and economic imbalances

## Setting limits to growth

By Tim Dickson

**VIRTUALLY FULL** employment; no public debt; healthy budget surpluses; and business pouring in from all over the world. The outlook for the Channel Islands—a community of roughly 130,000 people which can count all these blessings at the moment—has never been brighter.

Billions of pounds have flowed into the banking and fund management industries of Jersey and Guernsey in recent years. Their low taxes—income tax is 20 per cent in both islands and there are no capital taxes—their political stability, the high standard of professional services, and their capacity to avoid the sort of scandals that dogged offshore centres elsewhere are all responsible for this unprecedented financial bonanza.

But notwithstanding the air of prosperity and well being, the authorities, the financial institutions, and the local populations

are apprehensive about the future.

● The islands' finance sector—engine of their rapid economic growth—is fast outstripping the supply of skilled labour and accommodation.

● Financial services may be booming but many are wary of becoming over-dependent on an industry inately sensitive to bad publicity and to external political change.

● The possibility of a future UK Labour Government—and a possible upset in the islands' long-standing constitutional relationship with mainland Britain—is a perennial worry.

The rapid growth of the finance sectors on both islands and their widespread international popularity—is a relatively recent phenomenon. Until the early 1960s the only banks on the islands were branches of the high street clearers and even at the end of the 1960s the 23 registered banks held just £200m in deposits, mostly in sterling. Contrast that with the £40bn tucked away in the 52 banks registered on Jersey today of

£18bn is deposited in foreign currencies, and the £6.5bn deposited in the 48 registered financial institutions in neighbouring Guernsey at the end of June this year.

Growth has speeded up since the abolition of UK exchange controls in 1979—a development which some at the time thought would divert business elsewhere—and the islands have continued their transformation from offshore centres largely dependent on British investors and UK expatriates to ones with a genuinely international client base.

The islands' inhabitants resent their tax haven tag—they frequently point out that income tax has been at 20 per cent in Jersey since 1940 and at the same level in Guernsey since 1960. They stress, too, that the authorities have never set out specifically to encourage those escaping harsher fiscal regimes.

The characteristics which have made the islands attractive to investors are a source of local pride. Neither island has political parties; they enjoy good communications with Britain and France; they are geographically close to the City of London and (significantly) part of the sterling area; and they can boast an enviable line up of internationally respected banks, accounting firms and fund management groups.

The authorities on both islands have deliberately adopted a selective policy, on the grounds that the top names will neither wish to damage their own nor the islands' reputation. Of the 52 registrations under the Jersey Depositors and Investors Law more than 40 are connected with the world's top 500 banks. Guernsey is now entertaining applications only from the top 200 to 300 worldwide.

The big question for Channel Islanders is how far their small communities can continue to accommodate the rapid business development of recent years.

Both Jersey and Guernsey are conscious of the benefits of a successful finance sector in terms of employment and tax revenue but both are equally determined not to be overrun by bankers and accountants from the mainland and other metropolitan financial centres. Understandably they are anxious to preserve their traditional way of life and to protect the relatively unspoiled beaches and countryside which sustain another important industry, tourism.

Pressures for tighter immigration controls—already relatively strict thanks to the housing laws—are intensifying and, following an emotional debate on the subject, in September this year, the Jersey

States—the island's parliament—formally reaffirmed its commitment to limit the island's population to 80,000. (It is now believed to be about 77,000.)

The authorities are aware of the problems this restriction and the housing shortage presents for businesses already established on the islands—certainly the financier's most common complaint is shortage of skilled staff—but they can do no more than try to take the economy off the boil by applying more rigorously their powers to limit the expansion of activities through the Regulations of Undertakings and Development Law (Jersey) and to call for better training and improved profit per employee via computerisation.

As Jersey's Report by the States economic adviser on the Budget concludes: "In pursuing the desired policy of restraint to reduce the rate of immigra-

tion and protect the environment, conditions of economic prosperity and a high standard of public service are more likely to be secured for the future if the physical, human and financial resources presently available are used more effectively."

At the same time the Channel Islands' dependence on the finance sector is now more marked than ever, though it can be argued that the economy of Jersey, at any rate, is more balanced than 20 years ago. In the 1960s finance accounted for 10 per cent of the island's income, with tourism speaking for 50 per cent. Today the figures are more than 30 per cent and 40 per cent respectively, though if investment income from abroad received by residents and companies is included, the finance industry is probably the larger of the two main pillars of the economy. In Guernsey the finance sector provides some 50 per cent of the island's income.

By contrast, tourism appears to have reached a plateau, agriculture and horticulture continue to rely heavily on the taxpayer and manufacturing industry has inevitably suffered from the recession.

Guernsey's success in attracting light manufacturing businesses to settle on the island represents a conscious attempt to broaden the island's economic base.

What of the external threat posed by a change of government in Britain? Mr George Foulkes, Labour's foreign affairs spokesman, has accused the Channel Islands of encouraging "fraudsters, shysters and tricksters" and living off the proceeds of UK tax avoidance. He is a man who would like to end their privileges if his party returns to power.

The local reaction to these allegations is to deny that the islands somehow launder dirty money—a point accepted by members of a House of Commons select committee which visited the islands to investigate whether they were being used to house the proceeds of organised drug trafficking.

The majority of funds handled by the banks and fund

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management companies also now originate not from the UK, but from other parts of the world. There is undoubtedly a tendency not to broadcast too loudly in the UK the advantages of investing in the Channel Islands.

But while the islanders believe that no British Government could tamper with their privileges and that mainstream Labour Party thinking is now centred on measures to encourage the repatriation of funds sent abroad by the investing institutions rather than to reimpose exchange controls in their pre-1979 form, they are drawing up contingency plans should they find it in their best interests to break the monetary union with the UK.

How far the islands would wish to carry out their threat is a fascinating conundrum. Their position within the British Isles is a valuable asset and they rely on the British Government for defence and representation overseas (a policy that enabled them to negotiate a highly attractive relationship with the EEC).

The option of breaking the monetary union with the UK and setting up a Channel

CONTINUED ON PAGE 10

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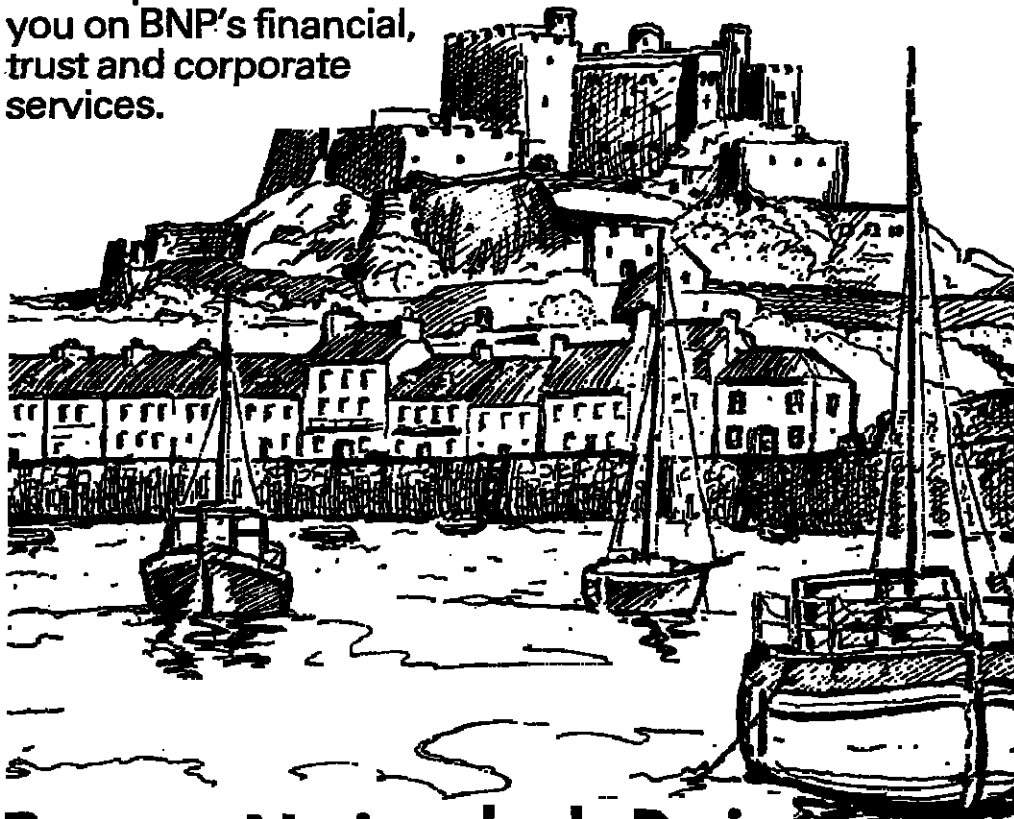
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## Channel Islands 2

## The basis for economic prosperity

Banking  
TIM DICKSON

THE STRONG popularity of Jersey and Guernsey as banking centres has underpinned the rapid growth of their finance industries in the last 10 to 15 years. In turn, the finance sector has become the basis of the islands' enviable economic prosperity.

The achievement is remarkable in view of the fact that 25 years ago the only banks on the islands were branches of the major UK clearing banks. The repeal of an ancient usury law limiting interest on deposits to 5 per cent opened the way for a handful of UK merchant banks to set up shop in the islands in the early 1960s. Kleinwort Benson was one of the first and since then the islands' growing reputation for fiscal advantage and political stability has inspired a host of British and international competitors to follow suit.

Today 52 institutions are registered under Jersey's Depositors and Investors Law and 48 separate institutions are registered in Guernsey, though these are owned by 36 different groups (parent banks of island branches or subsidiaries can be found as far afield as the US, Australia, South Africa, Switzerland and the Republic of Ireland).

The banks' contribution to the economy of the islands is evident from recent official reports. Between 1981 and 1984 profits of those registered in Jersey increased by 81 per cent (compared with price inflation of 21 per cent over the same period) with the result that banks are estimated to account for more than 30 per cent of the island's income.

A further indication of their role is provided by the recent surge in deposits—in the 12 months to June 1985 these rose £5.3bn to £24bn; roughly £18bn being denominated in foreign currencies.

In neighbouring Guernsey total pre-tax profits of the registered institutions (excluding the branches of the clearing banks) are expected to rise 15 per cent in 1985. Total deposits (including the clearing banks) shot up to £8.5bn at the end of June from £5.1bn a year previously.

The banks' share of employment is significant. Including the major trust companies in 1984, they had about 3,000 people on the payroll in Jersey and just over 1,400 in Guernsey (almost half the numbers of the whole finance industry there).

The rapid growth of the last few years, however—and the pressure this has put on office development and staff—is

forcing both islands to turn away many applicants for banking consent. Both sets of authorities are increasingly choosy about who they let in. They shrewdly calculate that such a policy is the most effective form of regulation. But quite apart from this, the islands simply do not have the resources to accommodate many more banks, however respectable.

## Applications

Jersey's Budget report argues that the island "should not close its door completely to the possibility of new institutions of international stature tapping new geographical areas... while Guernsey's commercial relations advisers, Bruce Riley, emphasises that the island "is still entertaining applications from quality international banks."

He adds, "We are, however, looking for a big contribution by way of tax revenue and a high return per employee."

Earlier this year, Bank of Scotland became the latest institution to pass the necessary tests in Jersey, and it has been confirmed that Credit Suisse is the latest to be allowed to set up in Guernsey.

Established banks, meanwhile, are constrained by the pressure on resources and all acknowledge that profits can only be maintained on an upward path with the aid of new technology and increased training resources for local staff.

As Bill Noble, chairman of the Jersey Bankers Association puts it "Our big problem is not new business but a shortage of people to handle it. The immu-

gration regulations are increasingly tough—limiting the numbers which can come in from outside—so the only option is to recruit within the islands. This means that they sometimes have to poach from competitors."

Handling deposits, of course, is a largely automated process and the scope for growth here is probably infinite. Where the pressures mainly arise are with the other services provided by the banks, such as international lending, investment management and trust administration, and tax advice.

Deposits are flooding in from all over the globe, though bankers mostly like to emphasise that the relative importance of UK investors has significantly declined. The Channel Islands have benefited from the misfortune of other tax havens or low tax areas—the political uncertainty in Hong Kong and the uncertain reputation of the Caribbean—and the anecdotal evidence is of significant sums being diverted, particularly from the Far East.

Besides the savings of expatriates (both UK and others) the banks see significant deposits from local residents, those resident but non-domiciled in the UK (who tend to be avoiding capital transfer tax) and UK residents anxious to receive interest payments gross, and thereby delay their payments of income tax.

Though most banks see retail deposits as the main market, some rely solely on wholesale money for funds. At one extreme there are those which lend all their money to their parent and at the other those, like N. M. Rothschild of Guernsey, which act as principal

in the main financial markets.

The Fund management business has grown substantially in recent years, partly on the back of expatriate investments and partly by being able to offer types of fund not permitted under the Department of Industry rules for unit trusts in the UK (the commodity funds being perhaps the best example).

The trust departments of the major banks, as Midland Bank Trust Corporation (Jersey) pointed out, are also kept busy by the increasing numbers wishing to register companies in the Channel Islands and take advantage of the attractive local environment for discretionary trusts.

Supervision, meanwhile, re-

mains a major preoccupation on both Jersey and Guernsey, a point illustrated by the establishment this year in Guernsey of the post of Banking Supervisor. Its first incumbent Mr Richard Waitford, aged 43, took up his appointment at the beginning of May.

Guernsey deposit protection legislation has also been tightened up. Since August, closer control has been exercised over advertising, and the States of Guernsey can instruct auditors of banks to report back information required.

The accounting requirements of banks have also been revised, and the differentiation between branches of recognised banks under the United Kingdom Act, 1979, their subsidiaries and other deposit takers has been removed.

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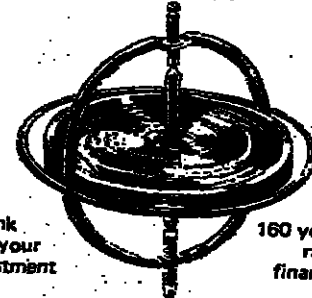
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## Clean image a crucial attraction to business

Fund Management  
BARRY RILEY

THE CHANNEL ISLANDS have come a long way in a short time in the offshore fund business, which began in the mid-1960s and only really took off in the late 1970s. Today, some £2.5bn is managed on Jersey alone, and the industry has become extensive enough to spawn the Jersey Fund Managers Association with 37 member firms.

At one stage this growth was driven by the tax and other advantages of UK funds compared with offshore funds, a trend which culminated in the mushroom growth of roll-up currency funds, but this phase is now over. Offshore funds have little special appeal for UK residents at present, although some CI managers hope that political nervousness as the next general election grows nearer may prompt some fund money to leave the mainland.

Most of the funds' business is now with a spread of international clients, and in practice probably very largely with the UK expatriate market, with salesmen frequently embarking on trips to well-heeled retirement resort areas like the Costa del Sol. And there is, of course, considerable wealth on the Channel Islands themselves.

The Channel Islands have developed a clean image, and this is a crucial factor in their being able to attract money against the competition of rivals in the Caribbean and elsewhere, although they have still not made a great impact on the Continental or North American markets.

Fund managers on the islands exude a comfortable prosperity, these days helped by the good new business levels coupled with the very limited growth of local competition—though Guernsey is a little easier to enter than Jersey for incoming firms.

Until now, a strict policy of allowing in only highly reputable fund management companies has been the main regulatory mechanism for the islands in the offshore fund sector. Officials admit that the legal framework is not really adequate to cope with the fund management industry at its present stage of development, and the islands have relied on the willingness of reputable operators to follow unwritten rules.

But this has scarcely been a satisfactory basis for long-term security, especially as the UK has been developing a new framework of law for the financial services sector. The Channel Islands are nervous about getting too far out of line with the mainland, and Jersey, for instance, is preparing a new Collective Investment Undertakings Law, which will replace the existing Control of Borrowings legislation in the mutual fund sector.

This legislation will be similar to the introduction of the UK Financial Services Bill, and should become law in 1987. The aim is that this degree of regulation will underpin the reputation of the Channel Islands without interfering with the appeal for investors of the offshore characteristics such as

confidentiality and freedom from the menace of the mainland tax man, notably in respect of Capital Transfer Tax as far as UK expatriates are concerned.

So the future of the offshore fund industry seems bright, marred only by the general physical constraints on expansion, with office space tight, and Jersey in particular affected by a clampdown on immigration.

The advantages are neatly set out by Mr Alistair Laurie, who has recently moved to Jersey to head up Save and Prosper's £300m operation on the island. S and P has closed its Bermuda office, and is now concentrating on Jersey as an economically and politically stable base.

We monitor very closely the opportunities in other centres," says Mr Laurie. "Jersey has a more sophisticated control set-up than many other financial centres. It has an enviable track record."

## Grey area

Guernsey, meanwhile, where funds manage an estimated £1bn of investments, moved last year to make the island more attractive to the offshore industry. Previously funds were liable to be treated as local businesses trading in securities—and thus subject to 20 per cent income tax—a "grey area" which forced many to play safe by setting up local corporation tax companies (while registered in the island, these are controlled from outside and only pay a flat rate of £300 corporation tax each year).

Following consultation between the finance industry and the authorities a new tax exempt status was created to help avoid this cumbersome procedure. Funds have to pay a fee of £1,000 to £1,300 each year—but most agree it is a small price for the extra convenience.

One of the biggest groups on Guernsey is N. M. Rothschild Asset Management (CI). Its biggest fund Old Court International Reserves, an international money market fund, was hit by the UK's anti-roll up legislation in 1983 when assets topped \$1bn. International Reserves nevertheless continues to prosper at \$300m, offers shares in 14 different currencies, and has thousands of unit-holders in dozens of countries.

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## Channel Islands 3



Craig Alexander runs Aurigny Air Services, one of a network of services connecting the islands

## Computers aid expansion

Infrastructure  
TIM DICKSON

GONE ARE the days when Jersey and Guernsey offered incoming business little more than a few well-practised fitters of brass nameplates. Notwithstanding the shortage of skilled labour and the pressures in the housing market, the authorities are proud of the infrastructure. They claim that few low-tax areas can match the range of internationally renowned banks and accountancy practices, legal firms, telecommunications, sea and air communications and hotels and restaurants.

The legal profession in the two main islands consists principally of locally qualified advocates. They combine the functions of solicitor and barrister and are trained in local law—mainly common law evolved from Norman customs and practices—and in English law. English solicitors are only permitted to deal with international law.

Many of the world's big accountancy practices have offices in Jersey. But when Arthur Young, McClelland Moores, Deloitte Haskins and Sells, and Coopers & Lybrand—and they provide a range of services from accounting, audit

and company incorporation work to share registration, trust administration and trusteeship. Financial services include banks, stockbrokers, insurance companies (notably on Guernsey), property consultants, estate agents, money brokers, commodity brokers and fund management groups.

Given the immigration rules, the growth in banking and other financial business has been sustained largely by the introduction of computer technology and modern banking systems. This has helped spawn companies with international names which have developed packages with the offshore customer in mind.

Mr John Hare, managing director of Guernsey systems house Datalink explains that "a system which operates here must be seen to be separate from a system run by the parent bank."

"Although modern telecommunications makes it feasible to operate a system which is linked into a mainframe in London, customers have chosen to keep their funds in Guernsey or Jersey; they would not like to think that details of their accounts were being processed in London."

He says a local presence on the islands is important.

"Although the mainland is less than an hour's flight away, it's no use in an emergency

having essential support staff stuck at an airport on the wrong side of the Channel when the islands are cut off by a sea mist."

Weather permitting, the islands are reasonably accessible, with regular flights to London's Heathrow and Gatwick airports, to Paris and to other centres on the UK and French mainlands. In summer there are direct flights to Amsterdam from both islands. There are regular car ferries from Portsmouth and Weymouth in England and a similar service and hydrofoil to St. Malo.

The harbour capitals of St. Helier and St. Peter Port are being enlarged through reclamation.

In June Jersey's parliament approved a £15m plan to extend the port of St. Helier by reclaiming nine acres west of the harbour. The first phase has been completed of a £15.5m scheme to reclaim 30 acres north of St. Peter Port to provide parking for more than 1,000 cars, a roundabout to reduce town centre traffic congestion, a marshalling area for container and ro-ro freight and a marina for 800 boats.

Telecommunications links make it possible to dial most countries in the world direct. Telexes can be sent to most centres and some firms have facsimile equipment for transmission of documents. British

newspapers are available on the day of publication.

Thanks to the islands' importance as tourist centres, both Jersey and Guernsey have a wide range of accommodation, from guest houses at a few pounds per night to five-star service.

● The Longueville Manor on Jersey—a small, family-run hotel—has won plaudits for the standard of cuisine.

● The St. Pierre Park on Guernsey is a relatively new luxury hotel built in attractive surroundings with a golf course designed by Tony Jacklin, and a lake.

The islands' bankers and accountants say they have never been busier handling the flow of new work. But they find time to sample the wide variety of high-class restaurants in both capitals.

There are, of course, problems besides those of the labour and housing markets. Residents complain that traffic jams are a personal hazard on the hundreds of miles of tiny roads which cross the islands. In the summer, tourists and their hire cars are to blame; in the winter the authorities do the repairs and create numerous diversions.

One special bonus, however, for visitors is that coin-operated phones still accept 5p rather than the 10p on the mainland UK.

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## Mass defection causes waves

Stockbroking  
TIM DICKSON

STOCKBROKER defections barely cause a ripple in the rough and tumble of the City of London these days. But when virtually all the partners and staff of one firm in a small community like the Channel Islands suddenly switch allegiance to a major rival, the local fallout is widely felt.

The announcement in August that Mr Alan Corbin and his 34-strong team at Sheppards and Chase had resigned to join James Capel has been the biggest talking point in Jersey and Guernsey stockbroking circles this year. The decision was prompted by an agreement in April that Banque Arabe et Internationale d'Investissement (BAII) will acquire full control of Sheppards when Stock Exchange rules permit. This illustrates the way "marriages" being made in London ahead

of next year's Big Bang are increasingly affecting the islands' financial community.

The drama, in a part of the world noted for the informality of relationships, has unfolded in an uncharacteristically charged atmosphere. There is considerable bad feeling on all sides and local sympathy for what many see as the injured party.

The States of Jersey Finance and Economic committee was annoyed by the way things were handled and only reluctantly allowed Capel to find office space for its new recruits, stressing that the incident should not be seen as a precedent for further musical chairs.

Mr Corbin, who started his own stockbroking business on the island in 1972, claims that members of the firm were being approached individually by Sheppards' rivals.

"Unless we acted as a team the executive group which had taken 10 years to build would have quickly fragmented," he explains.

"We wanted to be with one of the largest and strongest groupings emerging from the

City revolution, and we feel we have achieved our aim by joining James Capel."

About 14 stockbroking firms are represented in Jersey—all linked to London or provincial UK firms except Le Masurier James & Chinn. Besides Capel and Sheppards (which has recruited new staff and assured customers that it is committed to staying) these include Phillips and Drew, Laing and Cruickshank, Laurie Millbank and Hoare Govett.

Hoare, previously restricted to promoting its unit trust advisory service, obtained a prized stockbroking licence on both islands earlier this year by taking over the other long established local broker Trevor Matthews and Carey. Other Guernsey firms include Ashworth Sons and Barnett, Buckmaster and Moore and the recently arrived T. C. Coone.

London stockbrokers are primarily using Jersey and Guernsey as bases for international business. Wealthy local residents provide an important source of clients for some firms, notably Trevor

Matthews and Le Masurier James & Chinn. But expansion lies in tapping the expanding expatriate market, both through managing individual portfolios and providing a dealing and advisory service for the hordes of banks, trust companies, unit trusts and merchant banks which are custodians for other people's money.

Many observers feel the islands are now "over-brokered" and the chances of an outside firm gaining a licence in Jersey or Guernsey would appear to be slim. Business is healthy enough for those with established operations but expansion-minded firms must rely on further investments in technology and a training and recruitment of local staff. The immigration rules and the exodus of many of the most capable school leavers leaves a serious gap in middle management ranks.

An intriguing and unanswered question is how the authorities will react if banks like Barclays and Morgan Grenfell are tempted to set up local offices for their newly stockbroking subsidiaries.

"The overcrowding is bad enough," comments one stockbroker "but if Barclays, as one of the biggest banks and employers wanted to bring in De Zoete, could the authorities say No?"

## Research

The only local firm not to have been brought to the altar by a big financial conglomerate Le Masurier James & Chinn, appears to be in a strong bargaining position. But while partner Mr John Falls implies that somebody could always make an offer he and his partners could not refuse, "Le Mas" is determined to remain independent.

Mr Falls admits that the big London firms have the edge in terms of in-house research. "We have to form our own opinions." But he maintains the firm's independence is an important asset.

"A lot of overseas investors are concerned that their affairs may appear on a computer in the UK and we are able to assure them that they will not be in our office."

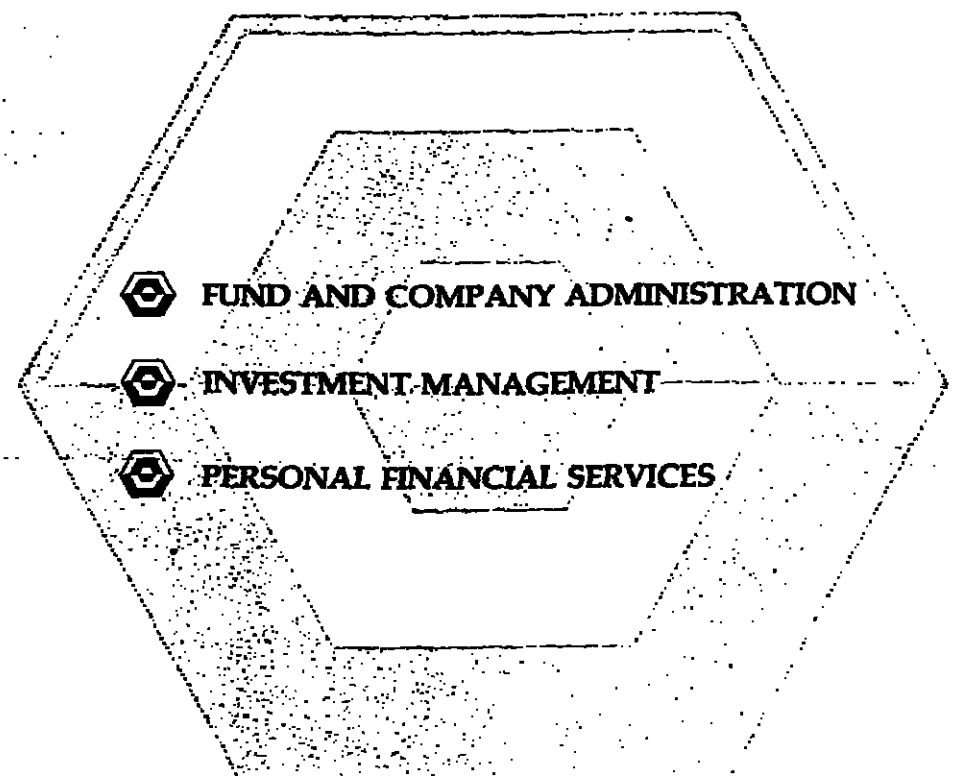
"Much of our business is dependent on institutions, but we have had every indication that these clients will continue to support us after the Big Bang, even though we will not be market-makers."

Such confidence in an independent future is a contrast to the earlier apprehensions of Mr Tim Tilden Smith, a Guernsey partner in Trevor Matthews. "We have a very nice business but if we had not gone in with a large international firm like Hoare Govett we might not have been saying that in two years," he says.

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## Channel Islands 4



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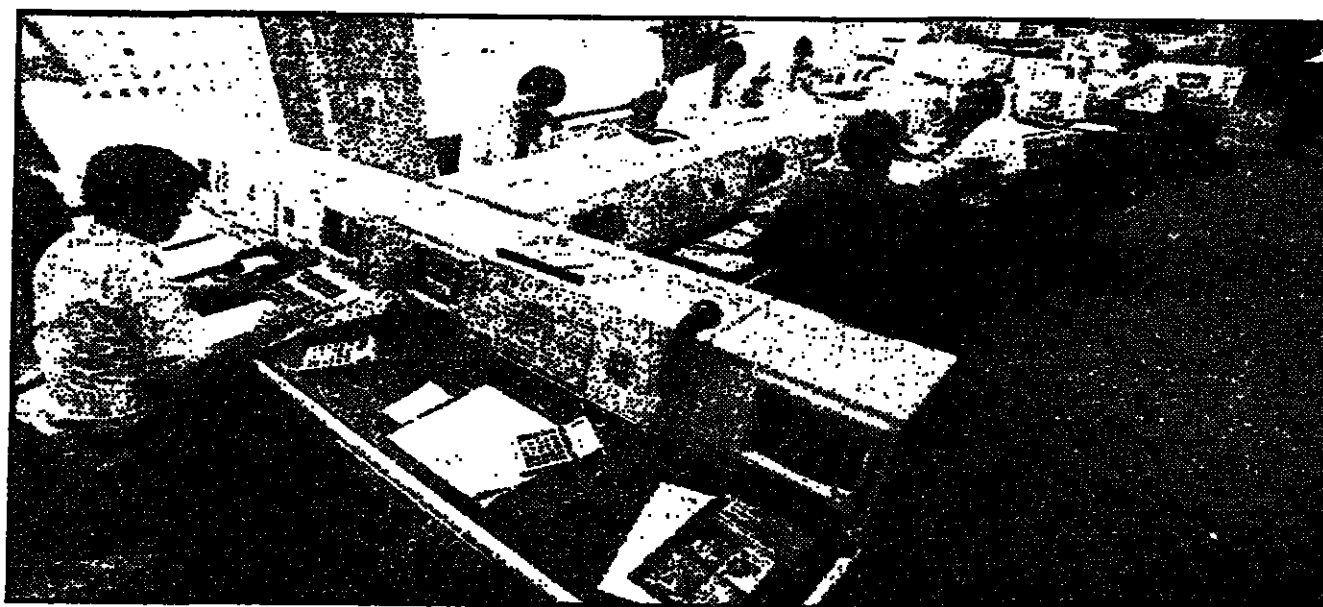
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## Business expansion strains traditions

### Politics

EDWARD OWEN

OVER THE past month, Jersey and Guernsey have both heard calls for more "co-ordination" in the management of their affairs.

Jersey's economic adviser, Mr Colin Powell, warned that "serious consideration needs to be given to whether the administration as presently structured is capable of handling the necessary relationship with business in the most efficient, and sufficiently co-ordinated, manner."

The president of Guernsey's advisory and finance committee, Councillor Roydon Falls, announcing plans for greater co-ordination, said: "One of the difficulties of our committee system is that, although it can cope with domestic matters, it is less able to deal with external matters"—clearly referring, in the context, to overall management of the economy.

These warnings touch on the aspect of the islands' administrative systems that has previously been held up as a strength, rather than a weakness—the absence of any "government" in the sense of a central policy-making body. The islands are run by parliamentary committees in a way more akin to UK local authorities than to self-governing territories.

Guernsey's advisory and finance committee, and to a lesser extent Jersey's finance and economics committee, have limited supervisory powers, mainly over expenditure. But any move that might give these committees a cabinet-like role has always been fiercely resisted.

The dislike of central administration is very much bound up with the tradition of honorary public service. As a former Guernsey Bailiff, the late Sir William Arnold, once put it: "A cabinet would tend to kill the enthusiasm of States members to give voluntary service on committees."

The special merit claimed for the committee system is that—along with the absence of party politics—it gives the islands exceptional political stability. "No committee, however important it may be, can force the States to adopt any particular measure," another former Guernsey Bailiff, Sir John Lovelidge, pointed out.

The growing complexity of island affairs, particularly the recent rapid business expansion, has led to a need to control it, is putting a strain, however, on the traditional systems, and not only in this direction.

The islands' part-time politicians are having to deal with an

increasingly heavy load of legislation. The monthly meetings of the Guernsey States, which used to take a day, now often run to two or three days.

There was concern in Jersey last year when two of the island's most able young senators did not seek re-election because of business commitments. The Bailiff, Sir Frank Ezeaut, warned that Jersey's system of self-government could break down if not enough people of sufficient ability came forward to stand for the States.

The answer in the view of political left-wingers, such as the Jersey Democratic Move-



Financial business like the Allied Irish Bank dealing room (left) is expanding. Colin Powell (above), Jersey's economic adviser has warned about relationships with government.

ment, is to pay States members enough to enable them, if they wish, to make it a full-time job. So far the islands have compromised on the principle of honorary service to the extent of making it possible for people without private means or comfortable professional incomes to enter the States.

In Jersey members can claim an allowance of up to \$4,250 a year, but are required to repay the amount by which their other income exceeds \$4,250 if single or \$8,375 if married. Guernsey's allowance is \$5,000 with a similar repayment arrangement where

income from other sources exceeds \$5,000 if single or \$10,000 if married. Those who want to see paid politicians argue that the present system still leaves the States an unrepresentative and part-time body—and the management of the islands too much in the hands of the permanent civil service.

However, while economic pressures may force the islands along the path of more centralised administration, neither professional politicians nor political parties seem at present remotely likely to control local affairs.



Tom Walker, president of the Jersey Board of Trade and a partner in Falle Marketing, in front of his company's operation at Trinity

## Surge of international interest

COMMERCIAL arbitration has been practised in the Channel Islands for centuries but received statutory regulation only in 1982 with the Arbitration (Guernsey) Law, an intelligent amalgam of the English Arbitration Acts 1950 to 1979. Jersey, unusually lagging behind Guernsey has produced a draft law with similar English origins, and it is hoped that the Channel Islands will have a virtually uniform system of arbitration laws by the end of 1986.

Given that the Bailiwicks of Jersey and Guernsey have separate laws and legal systems, this uniformity will be unusual. The Bailiffs of Jersey and Guernsey have also united to support the development of arbitration.

There are two main reasons for the surge of interest in arbitration. First, increasing pressure on the limited resources of the Royal Courts in Jersey and Guernsey makes the alternative offered by private arbitration a valuable safety valve.

Secondly, and of more commercial significance, the great potential of the attractive and neutral, low-tax Channel Islands for big international arbitrations has attracted considerable interest throughout Western Europe and North America.

The 700-year-old political and legal stability of the islands and the cosmopolitan sophistication and professional expertise developed over many years of growth as major international

imports the contracting out provisions of section three of the English 1979 Act (without the exclusion of "special categories" of contract contained in section four of the English statute).

International disputants can use the Guernsey Court's powers without committing themselves to appeal obligations.

The Norman-French legal system in the islands does not embody the English doctrine of precedent, so that the courts are not bound by the 1,200 or so English case-decisions on arbitration. Given the island courts' adherence to freedom of contract, it is unlikely that the local courts will interfere in arbitration to the level criticised in the English system.

Guernsey subscribes to the UN New York Convention (1958) on the recognition and enforcement of foreign arbitral awards, so Guernsey awards possess full international enforceability. It is anticipated that Jersey will also accede to the Convention during 1986.

Much of the upsurge of interest in arbitration in the islands can be ascribed to the activities of an energetic branch of the Chartered Institute of Arbitrators, which includes experienced international arbitrators and QCs, as well as several members of the American Arbitration Association's commercial panel.

In 1984 the islands were represented at the final working party of the UN Commission on International Trade Law (UNCITRAL), drafting the new model law on international arbitrations. But the islands will probably wait to see how many European nations adopt the law before deciding their own policy.

A privately funded arbitration centre\* was launched in Guernsey in 1984 and has attracted international interest. The centre has established panels of international arbitrators and advisors including some of the most eminent practitioners in Europe, such as Mr Cedric Barclay, Mr Norman Royce (UK), Mr Pierre Lalive (Switzerland), Mr Ottoarndt Glossner (FRG), Mr J. L. Delvolle (France) and Mr R. Mauro-Sammartano (Italy).

The centre has taken part in discussions initiated by the Chartered Institute of Arbitrators between Western European national representatives on establishing an association of international arbitration centres. This is aimed at improving co-operation and exchange of information between international centres.

Utilising the considerable Channel Islands expertise in international tax planning, the centre has devoted intensive

study to the development of tax-effective ways of using the low-tax regimes in international arbitration. It has evolved several packages that are attracting interest among big law firms on both sides of the Atlantic.

Even at the most superficial level the absence of VAT in the islands can effect considerable savings on costs to disputants in international arbitrations. But this is merely the tip of the iceberg with regard to the potential tax-savings available for disputants, arbitrators and counsel.

\*C.I. Arbitration Centre, PO Box 203, St. Peter Port, Guernsey. (Tel. 0481 21896. Telex 4191500 INPROD G.)

P. W. D. Redmond is a barrister, and chairman of the C.I. Arbitration Centre.

### Arbitration

P. W. D. REDMOND

Financial centres, give them suitable infrastructures and experience for handling substantial international arbitrations. Also the underlying legal system in both islands is Norman-French which has a considerable appeal to continental lawyers, since it provides a more familiar environment than English common law.

However, the arbitration law in Guernsey (which the Jersey law will closely resemble) is derived directly from the well-tried English arbitration statutes. Any commercial dispute is arbitrable, there are few mandatory provisions, and the arbitration agreement is paramount in setting the terms of reference of the dispute. Whether a contract is made in Guernsey or elsewhere, the parties are generally free to choose place of arbitration and the substantive law and procedural rules.

The Guernsey Royal Court has the same supportive and supportive functions as the High Court under English law. Appeal is allowed only with the consent of all parties or with leave of the court where there is a question of law substantially affecting the rights of one or more of the parties to the arbitration agreement.

The ability, most important in international arbitrations, for parties to "contract out" of any right of appeal to the Guernsey Court was not included in the original enactment. An addition to the law

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## Channel Islands 5



Technicians testing equipment at the Tektronix plant in La Villaz, Guernsey, part of the electronics industry settling in the islands

## Legislation seen as key to protection of good name

**Law Reform**  
TIM DICKSON

THE ISLAND will need to guard against the danger that, as the UK and other countries tighten their controls, business will seek centres with less rigorous supervision.

Reports by the Jersey States economic adviser, December 3 1985.

As Guernsey's reputation as a financial centre of repute becomes more widely known, so the island attracts less desirable elements wishing to trade on its good name. . . . legislation is required to prevent undesirable businesses establishing here, and properly to regulate those businesses which are already established.

1985 Economic Report for Guernsey.

As these two passages illustrate, Jersey and Guernsey protect nothing quite so jealously as their image in the outside world. Both islands' economies are heavily dependent on income from the finance sector and a mere whiff of scandal could quickly drive away profitable business.

As the Jersey economic report drily observed: "Any failure to maintain adequate standards and generally sustain a high reputation as an international finance centre can be expected to pose a much greater threat to the future of the industry than likely changes in the fiscal or monetary climate of the UK or other countries."

Jersey and Guernsey have consciously built up their reputations by carefully vetting new financial groupings and accepting only the cream of the world's banking institutions (the idea being that they have their

own worldwide standing to consider and will thus behave themselves).

But the increasing size and sophistication of the financial community, and the need to keep an eye on accountants, solicitors, company administrators, and insurance brokers, has led to a new preoccupation with improvements in commercial legislation.

Paradoxically, perhaps, the islands are as keen as ever to preserve a strong measure of corporate and personal freedom — key attractions for business people and investors alike.

All businesses in Jersey not trading under their own name have to obtain a registration certificate from the Commercial Relations Department and all new businesses — intending to occupy premises or to employ local staff have to get permission under the wide ranging Control of Regulation of Undertakings and Development (Jersey) Law, since 1976 the Guernsey authorities have exercised control over company formation — and banks and deposit takers have had to register under the Depositors and Investors legislation — but many businesses escape notice by setting up as sole traders or partnerships. For this reason, Guernsey is currently considering introducing more wide ranging legislation on the lines of the Jersey statute.

Company law in the islands is naturally less restrictive than in the UK. With the exception of registered deposit-taking institutions, audits are not compulsory in Jersey, while companies incorporated in the Channel Islands are not required to file accounts with the authorities (and are thus not available for public inspection). Information con-

cerning directors is not required in the annual return to the authorities in Jersey but the names and addresses of directors must be disclosed on the annual return in Guernsey. The greater pace of legislative activity on Jersey is illustrated by the 1984 Trusts Law, the 1983 Security Interests Law, the 1983 Insurance Business Law, and (this year) amendments to the 1958 Control of Borrowing legislation.

### Main areas

There are currently three main areas where significant changes are planned for the future.

● The Island's Finance and Economic Committee is currently considering responses to its draft Insolvency law, which for the first time will put into statutory form existing principles based on previous court decisions. Praising the quality of the views expressed, Mr Richard Syrett, Jersey's commercial relations officer, explains that the system of consultation with professional bodies "works very well."

● The draft for a proposed Collective Investment Funds law has also been circulated to interested parties and is expected to go to the States some time in the New Year. The aim is to establish a purpose made law for the growing number of unit trusts and other mutual funds and to give greater powers of authorisation and control to the Finance and Economic Committee. The new statute is important in the context of the UK's Financial Services Bill, which will set down strict rules of supervision in other countries where funds based there wish to market their products in the UK.

● The third area is company law, though changes here are not expected before the end of next year at the earliest. A draft for the committee has been prepared by a former senior partner of solicitors, Herbert Smith but is currently being modified and revised before going out for full consultation. It draws heavily on UK company law — though it is intended to be much simpler — and represents a major exercise for the island since it will affect not just local businesses but most sections of the financial community, including those companies incorporated in Jersey but which trade or hold many of their investments overseas.

Changes, however, are widely agreed to be overdue — the established company law dates back to 1861 and the last modification (relating to redeemable preference shares and class rights) was made as far back as 1968.

Guernsey, meanwhile, is also aware of the implications of the Financial Services Bill and is considering some form of new legislation for collective investment schemes in 1986.

Improvements are also likely to company law, a consultative document on licensing for trust companies has been prepared and a new framework for insolvency is expected before long.

The most significant new development, however, in view of Guernsey's growing reputation as an offshore insurance centre — is likely to be the forthcoming Insurance Business Law. It will affect the whole range of insurance activities on the island, including captives, reinsurance, and life and general insurance companies.

## Vigilant watch on the back door

**Customs & Excise**  
EDWARD OWEN

A COMMITTEE of Westminster MPs returned from a visit to Guernsey and Jersey this summer reassured that the islands were not, as has been suggested, a weak link in Britain's defences against drug smuggling.

After learning about the customs and immigration services and the extent to which they worked with UK and Continental counterparts, Sir Edward Gardner, chairman of the committee, said the Channel Islands would not be an obvious choice for drug traffickers.

Since then Guernsey customs has seized 500 kilos of cannabis from a London-registered yacht arriving from Spain at St Peter Port harbour. A few years ago nearly 1,500 kilos of cannabis, worth an estimated £2.25m, were seized in Guernsey from a

yacht bound from Morocco to Holland. In both cases the haul was due to vigilance, not a tip-off.

The customs and immigration control in the islands often surprises visitors, who perhaps expect "tax havens" to have a more casual approach. They may not appreciate that the islands are frontier posts both of the EEC and the British common travel area. Imports can circulate freely within the Community, and visitors to the islands have effectively entered Britain.

While the Channel Islands are exempted from many provisions of EEC membership, they are inside the Community for trading purposes, and for EEC regulations on tariffs, levies and import quotas.

The bulk of imports have usually already entered the EEC via the UK or the Continent. But encouraged by local authorities who can then collect revenue, more shipments have been arriving either from outside the Community or in transit via the UK with duty payable locally.

A watch has to be maintained for smugglers of anything from

drugs and pornographic material to arms and works of art, because the islands could easily become a "back door" entry or exit.

The Jersey Customs has 20 officers watching the airport and St Helier and Gorey harbours. Jersey also has responsibility for the British Isles' most southerly customs post, on the Minquiers, between the island and France. The Immigration Department has 18 officers manning the ports.

Guernsey has a combined customs and immigration service, with a uniformed staff of 24 to cover the airport and St Peter Port harbour.

In both islands incoming passengers are subject to customs control, including UK arrivals bringing in duty-free purchases.

Many visitors wrongly imagine that they can bring what they like into the islands. In fact, the Customs allowance is only 200 cigarettes, a litre of spirits or two litres of wine, plus two litres of table wine.

The same allowance is given by Britain and France to travellers from the Channel Islands, because in return from being exempt from VAT they are

regarded as outside the EEC for Customs purposes.

This has the advantage that Channel Islands residents can claim a VAT refund on goods bought in the UK or France.

The islands' responsibilities as guardians of the British common travel area were underlined in reports published recently in Jersey and Guernsey on a British Government request for a contribution to the cost of representing the islands internationally.

### Investigations

Jersey pointed out that its immigration department had to exercise "the greatest possible vigilance" to ensure that the island was not used as a back door to the UK. It also had to make detailed investigations when local residents sought British naturalisation, and provide consular and visa services for UK residents travelling abroad from Jersey.

The report concluded that apart from "identifiable expenditure" incurred by the UK on its behalf, the island was already making sufficient contribution to the British Government's overseas services.

Mr John de Faye, Jersey's Chief Inspector of Immigration, considers himself to be responsible to the Lieutenant-Governor, as the Queen's representative, and not to the States of Jersey. His department is part of the British immigration service, working in close daily liaison with the mainland side. He says: "The Channel Islands are carrying out national responsibility, and it is my job to ensure that the measure of control is no less than that at Dover or Folkestone."

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## Channel Islands 6



Guernsey specialities: knitwear produced by Le Tricoteur (left) and Fresia flowers ready for export from Le Bourg

## A sharp contrast in attitudes

**Industry**  
TIM DICKSON

THE RESPECTIVE attitudes towards light manufacturing point up one of the contrasts between the two Channel Islands.

Whereas Guernsey actively encourages new export oriented activities as an additional leg to its economy—and has chalked up some notable successes in recent years—the Jersey authorities are concerned that manufacturing and services are healthy enough merely to supply the local market and to provide sufficient job opportunities for school leavers either unwilling, or unable, to work in banks or hotels. Visitors to Jersey will find none of the glossy sales brochures of the island's near neighbour.

The 700 currently employed in Jersey firms manufacturing for export has remained steady in recent years—but the £22m of exports recorded in 1984 were lower in value than the previous year's total. Court-audits' local subsidiary was an early victim of the recession and more recently RCA, one of the biggest employers, closed its plant with the loss of significant numbers of jobs.

This year there has again been a substantial investment in a local factory manufacturing containers, and two international individual investors have demonstrated their confidence in the Jersey location by acquiring from Rediffusion its well established public address and audio visual presentation equipment company.

Channel Island based manufacturers inevitably pay more for their raw materials and face higher export costs than their mainland competitors. "That stretch of water is expensive in terms of time and money," observes one Jersey businessman who adds that the islands are not "natural locations" for manufacturing industry. A shortage of land for expansion, high energy costs, and the restrictions on immigration (and thus on the importation of skilled labour) are further constraints.

Guernsey's Board of Trade and Industry, however, is undaunted by such difficulties and has set out with a budget increased from £100,000 in 1982 to £335,000 this year to tell the world about the attractions of its 24 square miles. "We offer no special inducements—just the island's life," explains John



The drinks are on them. Peter Whitford and John King of Overseas Trading Corporation, which blends and picks tea for leading brand names

Dempster, the board's chief executive. "These include 20 per cent tax, not VAT, a 5.1 per cent social security contribution, no capital taxes, and a legal framework designed to maximise personal and corporate freedom."

Seven new companies arrived in Guernsey during the first half of 1985 (bringing the total in the manufacturing sector to between 80 and 90), employment is up 18 per cent at 2,500 (with a similar rate of increase anticipated for 1986), and over the past year two promotional visits to the US and five to the UK have helped yield more than 1,000 initial enquiries from companies wishing to learn more about the island's facilities. (The authorities reckon that 1 per cent of these may eventually make the move.)

Companies to arrive this year include the New Hampshire based Nashua International, which has chosen Guernsey as its distribution centre for Africa, the Middle East, India and parts of Europe; Texmate, a California based manufacturer of digital meters; Synchro, a UK based business manufacturing security light fittings; and Channel Island Cream Liqueurs, which was set up by a local resident in conjunction with the States Dairy. The largest and most firmly established Guernsey company is Tektronix, a

manufacturer and distributor of electronic equipment, which has boasted as many as 900 employees in the past but owing to the greater simplicity of its assembly operation now has only 600 on its payroll. Guernsey's recent push to attract manufacturing—Dempster says initial marketing efforts were made as far back as 1975—was inspired by the decline in the island's horticulture sector in the early 1980s and the consequent need to find another leg to the economy besides tourism and finance.

### Less a priority

Impressive overall growth since then, the success of the finance sector, and the virtual elimination of unemployment, mean job creation is less of a priority than finding companies which will generally benefit the economy. Nevertheless, the Board's aim is that manufacturing should employ 4,000 by 1995.

"Ideally we would like all these to come from the expansion of local firms, but the experience of the islands shows that outside skills are needed in every sector," observes Dempster.

"Obviously there is no point in making large, fluffy blocks on the island," he adds. "We reckon that if freight costs are 2-3 per cent of total overheads,

a company should survive quite happily. If a businessman is projecting 30 per cent, we tell him not to bother." Companies in the electronics sector, with low water and energy requirements, are thought particularly suitable but there are companies exporting high cost beds to the UK, a printer with the largest machine in Europe for making mail order envelopes, and a pharmaceutical manufacturer.

Significantly, both Jersey and Guernsey have set up enterprise agencies in the past year to advise new and established small businesses. Tom Walker, president of the Jersey Chamber of Commerce, was a prime mover in the Jersey Business Venture which officially opened its doors in September.

Finance has been provided entirely by the private sector—24 firms have agreed to give £500 each for three years—and already—more than 50 counselling sessions have been held. Walker says the Venture was started in response to the rising number of small local firms which were needlessly going into liquidation.

The Guernsey enterprise agency, which was set up with the help of £8,000 from the States, has been operating for roughly one year and claims to have helped a handful of new businesses get off the ground.

## Jersey celebrates successful French connection

**Energy**  
EDWARD OWEN

IN EARLY May, when the Jersey Electricity Company was testing its new cable link with France, three power failures within a few days caused alarm about the reliability of the supply.

But by the time Admiral Sir William Pillar, the island's Lieutenant-Governor, officially inaugurated the interlink last month there were congratulations all round, especially for Mr Dick Wade, the electricity company's managing director who had steered through the £12.5m project.

In celebratory mood, the JEC laid on wines labelled Vin Electrique and with French cheeses and croissants for customers at its showroom.

The teething troubles, due to a telecommunications, not an interconnector fault, were almost forgotten and the JEC's 34,000 consumers were enjoying the benefits of the French connection in cheaper electricity.

The normal tariff has been reduced by about 20 per cent from 7.2p to 5.8p per unit, and the company (in which the island government is principal shareholder) has been able to introduce for the first time an Economy 7 tariff with a night rate of 3.6p per unit.

The main purpose of the cable link, which took three years to plan and set up, was to reduce Jersey's total dependence on imported oil for generating electricity.

The alternative was to build a coal-fired power station. This was favoured by those who had misgivings about becoming dependent on a foreign undertaking and by conservationists who felt that taking French electricity would weaken Jersey's political position in the face of large nuclear developments on the nearby Cotentin Peninsula.

A report by UK consulting engineers Mott & MacLennan convinced local MPs in 1982 that tapping the French grid would be preferable to using coal, on economic and environmental grounds.

About 27 km of submarine cable have been laid between Archipel on Jersey's east coast and Surville on the Normandy coast linking the island's La Collette power station with that at La Haye du Puits.

The £6.5m contract to supply and lay the cable was carried out by Les Cables de Lyon, a French company, while the British French group was responsible for land installation work in Jersey, including laying 9 km of 90 kV cable.

The submarine cable mainly rests on the seabed with only about 1 km at each end buried. The French have banned trawling, dredging and anchoring for 500 metres on either side. In the event of damage, the cable is oil-filled to prevent water reaching the core and to help divers to locate the break.

During the summer the JEC took advantage of Electricity de France's low off-peak rates to draw all its supply—a load of up to 50 Mw—from that source, but at present the link is being used only at night and on some weekends. A daytime supply will be resumed next March and the proportion of French power will be gradually increased until no electricity is produced locally.

Meanwhile Guernsey, where electricity supply is the responsibility of a government board, is still dependent on oil for generating power. More than £6m was spent on heavy fuel oil last year.

### New tariff

Until recently Guernsey consumers were paying 11p per unit for the first 130 units and 7.4p thereafter. Helped by a fall in the price of oil, the electricity board has introduced a new tariff involving a standing charge of 28 pence per quarter for domestic users and £10 for commercial consumers with all consumption charged at 6.5p per unit.

A study of Guernsey's future energy policy is being made by Ewbank Preece Power & Water. On the strength of the consultants' first report, local MPs have authorised a £30,000 survey of a cable route to France. It is envisaged this would come ashore at Anse de Sciort on the Normandy coast, about twice the distance of Jersey's link. The estimated cost of today's price is £20m.

The electricity board, which does not favour coal-firing for efficiency and environmental reasons, believes that taking power from the continent during the summer has become viable.

Much will depend on the marine survey to be carried out over the next two or three months by Gardline Survey of Great Yarmouth.

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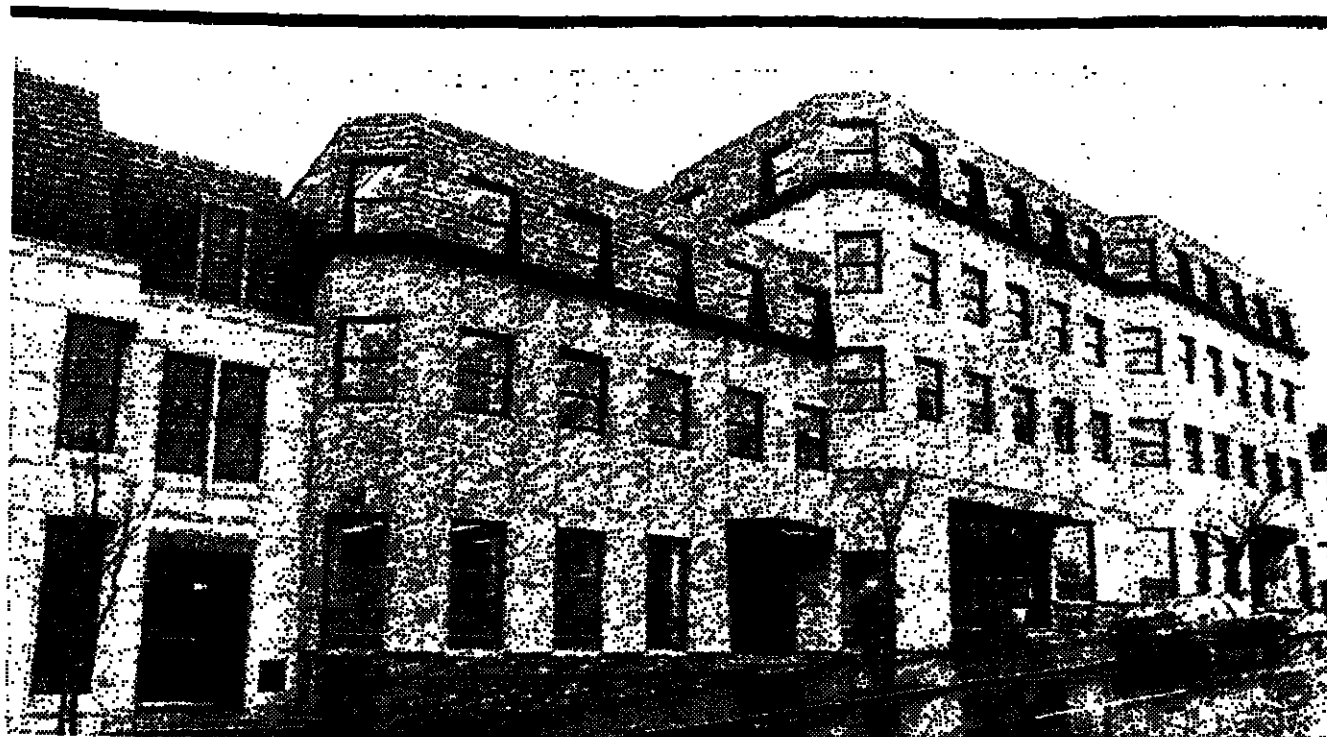
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## Channel Islands 7



Finance groups are filling the "golden triangle" area of St Peter Port (left). In St Helier, a 115,000 sq. ft. development on the Forum Cinema site (above) is also attracting banks.

## Agents assess impact of new controls

Property  
WILLA MURRAY

GUERNSEY estate agents are trying to assess the likely effects of far-reaching new controls that the island's Advisory and Finance Committee is to ask for next year.

The proposed legislation will be similar to Jersey's Regulations of Undertakings and Development Law, introduced 12 years ago, which gives the island's Finance and Economics Committee wide powers over the introduction of new busi-

nesses and the expansion of existing ones.

The law is a "stop-go" tool for regulating the economy according to prevailing conditions. Some observers say that it confers, for a capitalist society, a remarkable degree of state control.

Meanwhile, the Jersey authorities want to tighten up the law by giving the finance committee power to revoke existing licences, and by requiring traders coming into the island even for only a few days to apply for a licence.

Guernsey's finance president, Mr Roydon Falla, announcing his committee's policy decision in November, explained that the

purpose of the new legislation would be to control the rate at which job opportunities were created because a high proportion of such jobs would have to be filled by immigration.

He said: "To apply stricter controls or work permits while doing nothing to limit the rate of business growth will simply generate different symptoms of over-heating."

Over the past few years Guernsey has seen something of an explosion in office development. Three converging main streets to the north of St Peter Port are being up so thick and fast with finance houses that the area has been nicknamed "the golden triangle."

The latest developments

there include Sarnia House (27,000 sq. ft.), occupied by Lloyds Bank International and the American group, Nashua International; Truhot House (10,000 sq. ft.) leased by the National Westminster Guernsey Trust Co.; a 5,000 sq. ft. seafront site, occupied by Lazard Bros.; and a new 20,000 sq. ft. headquarters being built on the site of the island's last cinema for the Bank of Bermuda.

A plan reported to be in the pipeline to rebuild the 170-bed Royal Hotel as a 200-bed hotel with conference facilities, indoor swimming pool and squash courts, also incorporates office accommodation—a new departure for the Channel Islands.

According to local estate

agents, leases of prime office properties are snapped up before the foundations are even laid. And the demand is there, they say, for at least 50,000 sq. ft. more office space.

All this activity on the business front has caused the number of houses available on Guernsey's "open market"—a pool of 1,800 properties that outsiders can buy without restrictions—to drop from 100 a year ago to about 30. This is the number that old-established agents Lovell and Partners have on their books, and they claim to have more than any one else.

The finance boom has also led to the creation of a third strata to Guernsey's two-tier housing system, under which properties not on the "open market" can be occupied only by those with residential qualifications, or by licensed "essential workers."

## Offices

Recently, middle management staff in the finance industry have been granted licences to occupy higher-rated properties on the local market costing from about £70,000. Significantly, perhaps, a local market property has just changed hands for a record £250,000.

The average price for property sold in Guernsey during October was £44,583 per transaction, whereas in Jersey it was £28,000 for the four weeks ending September 20, with 34

properties selling for £100,000 each.

The largest-ever office development in the Channel Islands is now rising in St Helier on the site of the former Forum cinema in Granville Street. It comprises four five-storey blocks providing 115,000 sq. ft. of accommodation, together with underground car parking.

Chase Bank and Trust Co has taken one block as the new headquarters for its Jersey operation. Gothard and Trevor, the local sole agents, say that banks and finance houses have already reserved the other three.

The aim of Jersey's authorities is to restrict population growth to no more than 80,000 by 1995. One of the concerns is a shifting population conservatively put at 2,000 living in lodging houses—"a huge underground population not registered, and not paying tax," according to one island politician.

A strongly favoured remedy is that the housing committee should take over from the tourism authorities the control of lodging houses, where some room rents are said to be as high as £75 a week.

The island's policy on wealthy immigrants is to allow in up to 15 a year; together with their households, these are reckoned to account for some 50 people and to contribute about £2.5m annually to the economy.

## Spanners ready to leap in works

Tourism  
ARTHUR SANDLES

THE Channel Islands faces the 1986 tourism season with some nervousness. Ferry service confusion and sluggishness in the British mainland market place this year were worrying enough. Now the islands face the impact of the holiday price war and a strengthened pound, which may make the Mediterranean relatively more attractive.

At the root of the problem is the way the islands look to the mainland, particularly the south of England, for the lion's share of tourism. More than three quarters of Jersey's staying tourists (as opposed to day-trippers) are from the mainland and a higher proportion of Guernsey's. When that market sneezes, the islands catch a cold.

The sneeze in 1985, however, was not as bad as had been feared. Latest figures suggest that visits from Britain declined but, considerably less than to some other destinations, including resorts within the UK. Jersey bed occupancy in peak

season improved to 87 per cent from 85 per cent in the summer of 1984, which in most resorts would indicate "house full."

So why the nerves about 1986? Although the UK tourism market is likely to undergo one of its cyclical upturns next summer, spanners look ready to leap into the works—like sterling's strength, the tour operator war and continued problems with the ferry services. There was a swing to air travel in 1985.

Sealink's heavy losses on its south-west services have sent the company into a flurry of reassessment. Experiments with luxury ships and new routings failed. Now Sealink, while cutting fares, is plotting a one ship sub-line on its Weymouth-Jersey-Guernsey run. As the first port of call, Guernsey finds this acceptable: Jersey does not. (Sealink also operates from Portsmouth.)

Part of Sealink's problem has been the success of the Brittany Ferries-backed service, Channel Island Ferries, which has cut prices from Portsmouth and looks like stepping up operations next summer.

While the sea services have been battling over a declining market, the airlines have been

enjoying a boom. The status of Jersey as a financial centre gives air services a considerable bedrock of demand.

The island has direct flights to some 30 UK airports, although some only at peak times. Jersey and Guernsey together have direct flights to Zurich, Amsterdam, Frankfurt, Düsseldorf, Paris, Cherbourg and Dinard, as well as a range of charter operations.

Sealink's leap into luxury shipping services may seem a little extravagant, but it was based on sound trends. The islands, which have always appealed to a discriminating market, are finding that quality is the greatest attraction to visitors.

In Guernsey, although occupancies overall were down by 8 per cent during the season, the better hotels sold 15 per cent more bed-nights than in 1984. Mid-range hotels had a middling sort of season, while self-catering bed-nights fell by 20 per cent.

This pattern was repeated in Jersey, where hotels had a considerably better year than guest houses.

This demand for higher grade accommodation, and the fact that at peak times the space is

virtually full, encourages investment in new properties or in improvements. It also points the way to demands for conferences and incentive travel, a substantial growth area for the islands.

In the past few months there has been a 20 per cent rise in conference traffic to Jersey, twice that in the early part of the year. Business is estimated this year to have been worth £1m. Continued expansion is limited by the lack of rooms of a standard demanded by conference delegates or incentive tour organisers.

The same obstacle may restrict sales into Continental Europe. The bulk of the traffic is French and much of that in day-trips or short stay visitors. There is a high awareness of the island in many countries but less certainty about how to get there and doubts over whether the islands can handle the traffic.

Basic problems in the medium and longer term, therefore, appear to be the continued upgrading of accommodation and service, and efforts to broaden the season. Jersey has set up a Tourism Marketing Forum, a travel business ideas co-operative, which has led to longer-term planning.



Thousands of tons of ballast have been dumped into the sea to provide deep berths.

## Fighting the tides for more space

Reclamation  
EDWARD OWEN

THE Channel Islands' harbour capitals, already built partly on reclaimed land, are being pushed out into the sea again to provide space for port improvements, car parking, new roads and urban development.

This year new quays and breakwater rubble mounds have gone up along the northern shoreline of St Peter Port in Guernsey to reclaim a further 30 acres. The £15.7m scheme will provide a 20-acre marina with pontoon moorings for 800 boats; parking for 1,000 cars on two sites; a large roundabout at one of the town's busiest junctions; and a marshalling area of 2.8 acres for container and ro-ro traffic.

In recent weeks much of the

280,000 cu metres of ballast needed to infill the two quays has been dredged from the main harbour which is being deepened to give better access to ferry berths and allow for a second drive-on ramp and a passenger quay for inter-island vessels.

The dredging is costing £940,000 and the harbour improvements and extensions £3m. Virtually the whole of the frontage of St Peter Port is on reclaimed land, and in the early 1970s a plan was studied to reclaim the whole of Belle Grève Bay, more than 500 acres running north from the capital to St Sampson's Harbour.

At that time there was no thought of a marina, the scheme was seen as helping to solve the island's waste disposal, water storage and traffic problems and providing land for hotels, flats and industrial sites. The idea was abandoned in 1978 as too ambitious, but it could one day be revived.

In Jersey, some 35 acres west of St Helier harbour has been enclosed by a retaining wall, and infilling has begun. This sizeable addition to the town will be developed in conjunction with an extension to the harbour and replanning of the Weighbridge and Esplanade areas.

## Recreation

The £15m harbour extension—the largest project undertaken by the island government—will involve reclaiming about 9 acres for two deep-water berths capable of taking ships up to 150 metres, plus a passenger terminal and coach and car parks.

Details of the proposed redevelopment of the Weighbridge and Esplanade areas are not being released until an island plan is published early next year. But this includes a large roundabout with underground multi-storey parking for

800 to 1,000 cars, new road systems and pedestrian bridges.

The use of the reclaimed 35-acre site, which will probably not be filled before the end of the century, is in the early planning stage. It is conceived as a new quarter of the town, with housing development, recreation areas, car parks, and possibly some industrial buildings.

Meanwhile Jersey has started to use 14 acres reclaimed at La Collette, east of St Helier harbour. A factory built by a welding company is in operation, and another part will be used for freight handling.

The southern section will be occupied for up to three years by contractors working on the harbour extension and a new fish quay. Sites have been allocated for eventual use as government department depots, a motor-traffic office, and private harbour-orientated activities such as fish processing and boat repair.

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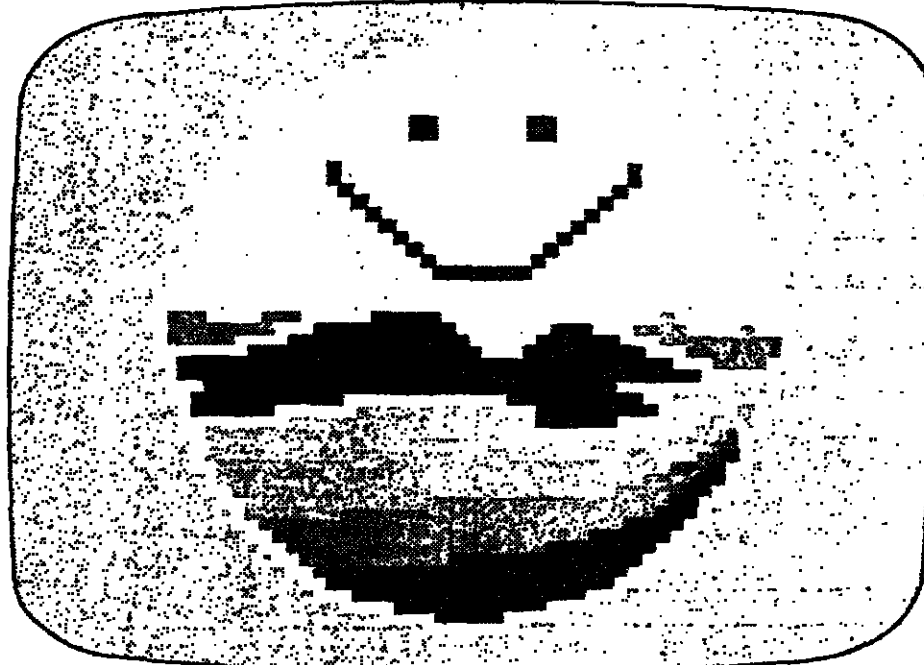
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## ITV Oracle, being very perceptive, chose Jersey.

The conference itself was a great success and I am sure you will find delegates returning to Jersey as a result of the weekend' said Catherine Welsh, Marketing Manager, Oracle Teletext Ltd.

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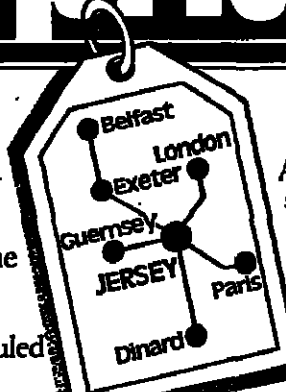
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## Homes for the few

The Rich  
TIM DICKSON

LORD MATTHEWS, smarting from defeat in the United Newspapers battle for his old company Fleet Holdings, may be fading from the UK commercial and industrial scene. But if it is any comfort to him he has recently become an important statistic in the Jersey economy.

Matthews is one of 15 individuals who this year have been granted consents to settle on the island on economic or social grounds. He thus joins other celebrities such as pop singer Gilbert O'Sullivan and best-selling author Jack Higgins in a category of "wealthy immigrants" which the island authorities specifically sets out to encourage.

Jersey, Guernsey and Alderney obviously benefit both from the tax revenue of these residents and the 15 to arrive this year in Jersey are expected to make a direct contribution of £350,000—and from their spending on local services and donations to local charities. As sources of revenue they may not be as significant as banks, tourists or tomatoes, but they nevertheless justify a separate section in this month's report by the Jersey states economic adviser on the budget.

The millionaire's "consents" to purchase property—Matthews paid around £1m for his retirement home—are granted under Jersey's Housing Regulation 1(1)(K). The conditions for qualification are not entirely financial—even if considerable personal wealth is a prerequisite—while all applicants are interviewed in person by the island's economic adviser, Colin Powell.

Lord Cromer, a former governor of the Bank of England, and journalist Alan Wicker are among those who own houses on Jersey. Guernsey, which has no 1(1)(K) equivalent but whose two-tier housing system enables outsiders to buy properties on the limited "open" market (see article on property), "boasts" Prof Northcote Parkinson (of Parkinson's Law fame) and a sprinkling of industrial and property tycoons among its celebrities.

Although it is officially confirmed that Jersey's 1(1)(K) regulation is to be maintained in 1986, the States has also indicated that the system could be changed to reduce immigrant pressures. The present policy will be reviewed in September next year when the results of the new census become available.

Commenting on a suggestion made this year that wealthy immigrants also represent a "cost"—that with three persons per consent effectively 45 people come in under the 1(1)(K) category—the 1985 Budget report points out that "some immigrants of previous years have either died or left the island. The number of persons resident in the island in receipt of substantial investment income from abroad is not thought to be increasing to any great extent from year to year."



Lord Matthews (left) and Alan Wicker—two of the wealthy immigrants to Jersey

## Victor Hugo valley raises passions

Water  
EDWARD OWEN

JERSEY is fiercely divided over the future of a valley—a green and pleasant spot in the east of the island where Victor Hugo used to take walks during his exile, and where detective Jim Bergerac originally had his converted farmhouse home in the BBC TV thriller series.

The Jersey New Waterworks Company and the Public Works Committee, supported so far by a majority of States members, believe that flooding Queen's Valley is the most practical solution to a potentially critical water resources problem. A substantial number of islanders (more than 11,000 recently signed an anti-flooding petition) oppose the scheme on environmental grounds and think that the risk of Jersey running short of water can be removed by better management of resources

and by enlarging an existing reservoir at Val de la Mare, in the west of the island.

When the project was first proposed more than 10 years ago, no-one imagined the controversy would still be raging in 1985—and, indeed, be even more passionate.

The waterworks company, in which the Island Government now has a controlling interest, has had the policy of flooding Queen's Valley endorsed by two consultants' reports.

The main pressure group opposing the scheme, called Concern, instigated an independent inquiry that reached the opposite conclusion. The group recently brought over a UK expert who agreed there was a case for studying the alternative of enlarging the Val de la Mare reservoir.

Opponents of the scheme also point to the findings of an inquiry board (headed by the

late Sir Giles Guthrie), which was set up in the early days of the controversy. The board saw no need to flood the valley if demand were controlled by domestic metering and a stricter pricing policy, and recommended that the existing reservoirs should be topped up in the summer from Jersey's oil-fired desalination plant—a proposal that the waterworks company says would now cost £15m.

So far, the island Parliament has had at least eight debates on the issue. This year the House has rejected moves to look again at the Val de la Mare alternative and to set up another inquiry into the whole water situation. After each vote,

the controversy was declared closed—only to gather heat again.

In October, Jersey saw one of its largest public demonstrations when conservationist Dr David Bellamy led a procession of thousands of protesters through the threatened valley.

To the chagrin of the pro-flooders, Gerald Durrell, founder of the Jersey Zoo, also stepped into the fray, describing the Queen's Valley scheme as "ill-thought-out and ill-conceived."

The opposition has now crystallised around the draft enabling legislation, which empowers the waterworks company compulsorily to purchase the 281 acres of land needed for the reservoir, with apparently no provision for objection or appeal.

Among those affected is the National Trust for Jersey, which is reluctant to surrender three

acres of woodland it owns in the Queen's Valley.

The draft law has been attacked by one anti-flooder, a local advocate, as "an horrendous invasion of the rights of the citizen." In defence of it, the island's attorney-general, Vernon Tugwell, produced a 15-page report.

The parliamentary debate on the enabling Bill has been postponed from November to January to give members more time to study its implications.

In response to the 11,117 signatures of the petition, Deputy Don Filleul, president of the Public Works Committee, has promised to have a "fair and unbiased" report prepared on the island's water situation.

Meanwhile, the estimated cost of the Queen's Valley project has risen from an original figure of £15m to £18.5m.



Excavating the recently discovered Roman site in St Peter Port

## Land and sea yield historic secrets

Archaeology  
ALLAN ELLIS

A RICH haul of archaeological discoveries within the past few years has changed experts' view of Guernsey's importance in Roman times.

Until recently, Roman remains were so negligible that it was thought ships from Brittany, at that time Roman-controlled Gaul, probably avoided the island's rock-infested coast when they crossed the Channel.

Now, there is abundant evidence to suggest that from around 100-400 AD St Peter Port was a Roman town where inhabitants worshipped Roman gods and lived in relative sophistication.

Excavations carried out over two years in gardens at the town site of La Plaiderie, which were completed last October, have revealed three substantial buildings of local granite with Roman roof tiles that were almost certainly warehouses.

These, together with a wealth of items that are now being investigated and catalogued,

establish St Peter Port as a thriving waterfront trading station and staging post serving the imperial army. One of the artefacts unearthed is a locally made burial urn in typical Roman style, complete with cremated remains.

The dig was directed by Bob Burns, assistant curator of the Guernsey Museum, who is convinced that a Roman villa belonging to the commander of the trading post is buried somewhere near La Plaiderie.

Roman remains were found also at King's Road on the outskirts of St Peter Port, where a rescue dig was mounted before the site was redeveloped.

Revelations of significant Roman activity on land were matched at sea by local diver Richard Keen's exciting discovery of the unique wreck of a Roman trading vessel, marvelously preserved for nearly 19 centuries in the silt of St Peter Port harbour.

Dr Margaret Rule, who directed the raising of the Tudor warship Mary Rose, led a successful race against time last spring to rescue considerable remains of the 35 ft-long vessel.

The operation was the subject of a BBC 2 documentary. Ironically, the flat-bottomed ship was rapidly being destroyed by what had originally led to

its exposure and discovery—propeller-wash from a new generation of cross-Channel ferries.

Almost 110 solid oak beams from the dismantled Gallic-built vessel now lie in tanks in a St Peter Port warehouse to draw out the salt. This, a necessary process before preservation treatment can begin, is expected to take two years.

The Guernsey Maritime Trust is employing archaeologist Jason Monaghan to organise the cleaning and cataloguing of thousands of relics taken from the wreck. He is also constructing a one-tenth scale model of the vessel, which is referred to by Julius Caesar, but lost to sight for centuries.

The trust, a local body formed to fund recovery and preservation of the wreck, has nearly reached its target of £40,000, launched with a £10,000 donation from Barclays Bank. But it is now seeking more money for a permanent display in the island.

Dr Rule, who continues to mastermind the overall operation, described the Gallo-Roman shipwreck in Europe.

For a few tense weeks last

month it looked as though Guernsey was about to deliver another lost treasure from the sea—this time a late medieval ship.

The wreck was discovered in an area of St Peter Port harbour about to be dredged for berthing improvements. Dating from around 1350 to 1400, it is one of only three shipwrecks of this period ever discovered in British waters.

Guernsey's Ancient Monuments Committee mounted an urgent operation with the National Maritime Museum to move the remaining two-thirds of the vessel to a nearby bay, where it was planned to bury it in sand for later excavation.

Just as weather conditions improved sufficiently to allow a stand-by team of divers to shift the wreck, continued dredging operations succeeded in disintegrating it.

Guernsey Museum Curator Rona Cole said: "Although we are disappointed that the wreck is no longer a coherent structure, none the less the majority of the timbers have been recovered and will be recorded."

"The most important objective for us is to publish the information we will have gained from the wreck. To save the actual structure would have been a bonus."

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## Channel Islands 9

## Church saved from police takeover

Culture  
WILLI MURRAY

A REGENCY church that was threatened at one time with being turned into Guernsey's central police station has been saved through the efforts of conservationists and opened as a concert and assembly hall.

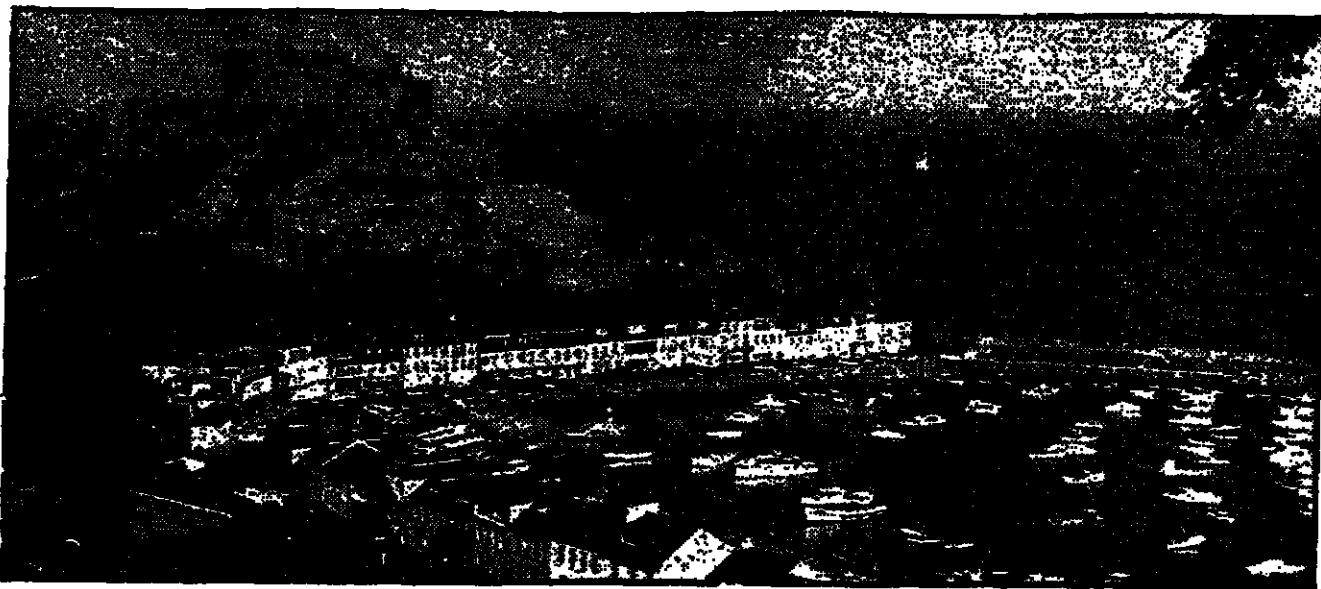
The elegant steeple of St James, topped with ball, spire and weathercock, rises 110 ft from the ground half way up the long curve of St Julian's Avenue and the Grange, and overlooks St Peter Port.

Immediately below it lie the prison, now being rebuilt in the north of the island, and the police station—still to be relocated.

Apart from the architectural importance of St James to the town's skyline, it is something of a watershed in the history of the once French-speaking island.

At the suggestion in 1815 of Sir James Saumarez, one of Nelson's most distinguished admirals, it was built to celebrate the victory of Waterloo and provide a church for the British redcoats stationed in Guernsey where services for the first time would be in English.

(Sir James had anglicised his own name by dropping the "de" and "de Saumarez" for fear a Guernseyman should



Looking over Jersey's Mont Orgueil Castle and Gorey Harbour

be mistaken for a French traitor.)

The architect was John Wilson, often described as "the Nash of Guernsey," who was responsible for many of the fine Regency buildings with which this period of island prosperity has endowed St Peter Port.

A Cumbrian stonemason's son, John Wilson, who arrived mysteriously in 1816 and left Guernsey equally mysteriously

in 1830, also designed the Tudor-revival reconstruction of Elizabeth College, opposite St James.

Guernsey's public school was founded by Queen Elizabeth I, the cost of its refabrication in 1826 was met by the tax of a shilling on a gallon of spirits.

The neo-classical building of St James, faced with honey-coloured Roman cement, was completed at a cost of 700 guineas by 1818, and was con-

secrated that year.

But with the departure of the last British regiment, and later with the decline of Guernsey's bi-lingual heritage after the evacuation of so many island children during the Second World War, St James lost its special role. It was secularised and presented to the island government in the early 1970s, when Guernsey was beginning to develop as a finance centre.

Local MPs, who saw the

disused church as a revenue-raising site for office development soon came up against a determined group of conservationists.

For 12 years they lobbied for money to restore St James, urging that fine acoustics made it a natural for the concert hall the island lacked.

Restoration at an estimated £73,000 was agreed upon in principle in 1975. Five years later, when the building was ing further into damp and decay

and costs rising, Guernsey's parliament decided to construct a new police station on the site—behind the carefully preserved facade of St James.

The conservationists, who saw the compromise as "a monstrous act of architectural hybridism," rallied by forming the association of the Friends of St James, and offering to administer the building if the Government would pay for restoration and upkeep of the fabric. They also raised £40,000 privately as security for their promise.

As a result of the Friends' spirited campaign, local MPs voted in 1983 for restoration work to go ahead—by then at a cost of £458,000.

Last July to a fanfare by composer and local resident Bob Farnon that visibly split the ear-drums of dignitaries on the stage, the Duke of Kent officially opened St James. The Duke flew into Guernsey in his capacity of chairman of the UK committee for European Music Year, which had accepted the project as Guernsey's contribution.

Since then, St James has opened up the island's cultural life, helped by sponsorship from over a dozen banks and finance houses. The Friends of St James have brought in top-ranking musicians to give evening and lunch-time concerts and also provided the venue for a variety of events from drama to fashion shows.

## Fleet swollen by perks of flying British flag

Marine Business  
EDWARD OWEN

THE international growth of yacht ownership in the mid-1970s created a new market for the Channel Islands, providing facilities for foreigners to obtain the advantages of flying the Red Ensign.

This involved setting up a Channel Islands company for the owner so that a vessel could qualify for British registration. Along with company management went the opportunity to arrange marine mortgages and insurance and to provide trust formation and other financial services.

At least 2,000 or 3,000 yachts in areas such as the Mediterranean and the Caribbean are Channel Islands-owned, and new yacht companies are being formed almost every week.

One of the first into the market was the Guernsey merchant banking subsidiary of Slater Walker, including Sarnia Yachts, taken over in 1976 by Ambacher (CI). Another Guernsey company, Bachmann has built up a subsidiary business handling well over US\$300m of assets through marine services.

In Jersey, one of the leaders

in the field is Hardy & Le Queux.

Much of the yacht registration business comes through international boatbuilders and brokers. They recommend a Channel Islands company to buyers not only for securing British registration, but for professional administration of a sizeable yacht or motor cruiser.

Larger vessels, rather than the 40 or 50 footers, provide the potential market nowadays. Bachmann's basic package for registration and documentation costs £2,000 to £2,500 in the first year and about £800 annually thereafter. Clients tend to own yachts costing at least US\$500,000 with one or two worth more than \$10m.

Bachman is handling 80 to 100 registrations and looking after about 600 vessels.

The company acts as consultants for the luxury yacht Permaire, designed and built by the Swiss management group

Aircraft and sold to the Sultan of Selangor.

A yacht owned by a Channel Islands company can often avoid taxes due if flying its own flag. Companies formed for foreign yacht owners have no tax liability as long as they do not trade locally and are not subject to VAT or to capital taxes on sales transactions.

But the tax factor is becoming less significant in the yacht registration business, according to Mr Peter Bachmann. An international client, owning a luxury yacht is already likely to have arranged his tax affairs.

For commercial shipowners one of the attractions of the Channel Islands is that while they are recognised as official British Ports of Register rather than ports of convenience, the requirements to obtain British registration are less onerous.

This is because some of the more recent conventions applying on the UK mainland have not been extended to the Islands. This will change when Britain's central shipping register is established.

Unlike the Isle of Man, neither Jersey nor Guernsey is expected to set up the marine administration and inspection needed to qualify as a Port of Register under the new Merchant Shipping Act.

While a ship owned by a Channel Islands company will still be able to show Guernsey or Jersey as its home port, it will be effectively UK-registered and have to comply with DTT standards.



The international growth of yacht ownership has created a new market for the Channel Islands



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## Interest-free borrowing from licence to print money

Currency  
EDWARD OWEN

VISITORS quickly accumulate a mixed bag of money in the Channel Islands, where English, Jersey and Guernsey coins and notes jostle, together.

At one time the islands were a little wary about accepting each other's money, but more inter-bankish commuting has broken down the barrier.

English money is legal tender throughout the islands and, properly speaking, is the real currency. Outside the archipelago, Jersey and Guernsey money has no standing—al-

though, as their coins are identical in size and shape to their English counterparts, they turn up in mainland slot machines, "contaminating," as the Bank of England puts it, the national coinage.

While it underlines the islands' independence to have their own money, there are also definite economic benefits. Guernsey first issued States notes in 1816 to finance public works without borrowing and the purpose is still essentially the same.

To the extent that the island government can set their own notes and coins into circulation (over the Christmas period the total could be £20m in Jersey and £10m in Guernsey), the governments have interest-free loan from the clearing banks, which purchase their requirements at face value.

The States of Jersey and Guernsey use local money in their own transactions and periodically urge all islanders to do the same.

"Every States' note kept in circulation instead of an English note helps to keep taxes down," the Guernsey public was reminded.

Ideally, the island authorities would like to see their own money used exclusively, but this would be feasible only if the archipelago were an independent monetary area.

Although there have been occasional voices calling for the islands to break away from sterling and set up their own central bank, this possibility has never been considered seriously until the past year—and then only as "contingency planning."

Guernsey's finance committee opened up the issue by questioning—clearly with an eye on a future Labour Government in Britain—whether the UK Exchange Control Act should any longer apply automatically to the island.

This led to discussions with Jersey, and finally to a meeting with Bank of England, Treasury and Home Office officials at which the islands were assured that "monetary matters" were regarded as their own affair and there was no constitutional objection to the kind of contingency planning they were undertaking.

For the foreseeable future, however, Channel Islands money is likely to remain a strictly local currency of no interest to anyone else except collectors and souvenir-hunting holiday-makers.

Guernsey is making its first serious bid to break into the international numismatic market with a new set of coin designs issued this year. The island's independently-run Post Office is handling the marketing through its philatelic bureau.

To make its coins more acceptable to collectors, Guernsey has put the Queen's head on them for the first time since it introduced its own coinage (denominated in doubles until decimalisation) in 1830. Apart from one or two special issues, the obverse of Guernsey coins has always carried only the island's crest.

Jersey's last change of design for coins up to 50p was in 1983, but a series of 21 coins featuring emblems of the island's 12 parishes on the reverse (the larger island has always shown the emblem of the Queen) is being issued at the rate of two a year.

Both islands brought out a £2 commemorative coin to mark the 40th anniversary this year of their liberation from German occupation, and next year both are issuing a £2 coin to mark the 13th Commonwealth Games.

Neither island has plans to compete with the Isle of Man Angel or Canadian Maple by producing a gold coin.



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## Standing on their own financial feet

### Smaller Islands

WILLI MURRAY

UNLIKE SARK, which relies heavily on Guernsey for guidance and expertise, is virtually independent financially. Alderney is economically intertwined with the larger island.

From a budgetary point of view, the 34-mile-long island is rather in the position of a subsidiary that is expected to stand on its own feet, but has 84 per cent of its balance sheet controlled by the parent company.

Under a post-war reform, Guernsey took over responsibility for the northern isle, which had been evacuated and turned by the occupying Germans into a concentration camp.

Alderney pays Guernsey's rate of income tax, social insurance and indirect taxes. It also pays Guernsey (handsomely, say local residents) for services such as administration of the island's hospital, school and small airport.

Only the maintenance of Alderney's 1,000-yard-long breakwater was specifically excluded in the post-war deal, but now Guernsey has offered to take over this Victorian white elephant as the major part of a defence contribution package to the British Government.

Work began on the breakwater in 1847 when the British Admiralty was planning to create a strong base in Alderney to counter a French naval build-up at Cherbourg. By 1864, the uncompleted and enormously expensive scheme had been abandoned. Since then a succession of UK government departments has been responsible for the upkeep of the breakwater, the latest being the Department of the Environment. The annual maintenance cost is currently put at \$550,000, of which Alderney contributes \$15,000.

The problem for Alderney is that Guernsey's increasingly sophisticated life style is too expensive—and even inappropriate—for a community of 2,300.

This year, as it happens, the smaller island's financial position looks not unhealthy, thanks largely to a \$200,000 tax revenue increase that has come from no one quite knows where.

But in its latest budget report Guernsey's advisory and finance committee says that Alderney's economic situation is "precarious and the long-term trend is still worrying". Talks are going on between the two islands on expenditure levels, especially on the cost of the services Guernsey provides for Alderney.

It is against this background that the Alderney authorities see the need to diversify the island's economy, at present dependent mainly on tourism and well-to-do settlers like John Arlot and author Elizabeth Beresford.

The increasingly selective policies of Jersey and Guernsey—especially Guernsey's intention to introduce control over new businesses—are seen as providing Alderney with an opportunity to pick up some of the tit-bits from

its wealthier neighbours' tables.

The island authorities are particularly keen to encourage high-value production units employing from three to a maximum of ten, which might now be regarded as too small for Guernsey.

They also see a chance of attracting, for example, secondary business following Guernsey's recent ban on further private trusts companies, but would clearly have to rely here on the larger island for vetting and supervision.

Alderney has its own company law, and its immediate advantage for incoming businesses is that there are no housing restrictions.

The little town of St Anne houses branches of most of the clearing banks, two firms of accountants and a branch of a Guernsey legal practice. The local lawyer, Jon Kay-Mount, is the president of the island parliament.

While Alderney lacks the sophisticated infrastructure of Jersey and Guernsey, the locally based airline, Airigny Air Services, flies daily to the larger islands and to Southampton, and provides regular links with Bournemouth, Cherbourg and Dinard.

One businessman who finds Alderney an attractive base is Norman Laws, who runs a world-wide shipping and transport agency from an office in St Anne.

### High-tech

Ian Burgess moved the headquarters of his consultancy service, Linked Medical Data, to Alderney in 1983. Launched in the UK six years ago, the service monitors, through a panel of 1,000 GPs, situations in general practice where drugs are not working and may have to be changed. He is now extending operations to the Continent, working with Audits of Great Britain, one of the world's leading market research groups.

Says Mr Burgess: "High-tech consultancy services are the ideal type of industry for Alderney, where there are good telephone and air links. It is also a very nice place from which to operate—a lot nicer than Jersey or Guernsey."

Although feudal Sark has independent control of its finances, raising revenue from a population of only 420 has its problems and the island's prosperity hangs on carrying out the principle recommended by Mr Burgess.

A detailed financial report from the general purposes committee, which is chaired by Sark's hereditary seigneur, Michael Beaumont, concluded last January that the only practical means of raising money in a crisis would be to introduce some form of income tax.

However, with a budget surplus of \$5,000 in 1984, there is no serious intention of implementing this proposal in the near future.

Suggestions in the island parliament that companies using Sark directors for tax advantages should make a "voluntary contribution" and that those residents holding such directorships might contribute 5 per cent of their income to an island trust, were dismissed as "idealistic."

## Channel Islands 10



A computerised furnace burns 2,000 tons of waste a year to heat glasshouses for La Chasse Nurseries at St Saviour to produce tomatoes

## Bad times for the Guernsey Tom

### Horticulture EDWARD OWEN

IT HAS been a traumatic year for Guernsey's horticultural industry, with the problems of continuing poor returns and shrinking markets for tomatoes aggravated by a battle over the future of the island's tomato marketing board.

Once the mainstay of the local economy, the tomato industry has been in steady decline since the mid-1970s, hit by intensified Dutch competition on the UK market and the rising cost of the oil needed to heat glasshouses.

In the heyday of the Guernsey Tom, the equivalent of 8m six-kilo trays were being exported. This year's shipments were down to 2.7m trays and the 1986 figure is expected to be 1.9m.

With the fall in exports came increasing doubts about the usefulness—and efficiency—of the Guernsey Tomato Marketing Board, a producer-owned body set up in 1952.

Long regarded as a model of centralised marketing, the board came under fire for failing to adapt to changes in the

market, especially the emergence of the supermarket chains.

Last year it seemed to have regained growers' confidence when it won their backing for buying a computerised grading machine and cooling equipment.

The first sign that these moves had not quelled unrest came in the annual report of the island's biggest horticultural undertaking, Kenilworth Vineeries. The chairman said he believed Kenilworth could have achieved 10 per cent higher returns if it had been able to market tomatoes independently.

He called for the end of the board monopoly and its reconstitution as a commercial company.

The following months saw the fiercest public debate on horticultural policy since centralised tomato marketing was introduced. In a bid to fend off the demand of Kenilworth and its allies for the board's liquidation, the board offered to divest itself of compulsory powers and to realise its assets for the benefit of growers by selling its premises to the island states under a lease-back.

This, was aimed at preserving the marketing organisation for the industry as a whole, since the board was already handling

Guernsey's cucumber exports and more than 90 per cent of its celery and capsicum. Since then it has begun to back the island's newest crop, kiwifruit.

A ballot of the remaining 190 tomato producers showed that smaller growers wanted to keep the board while the larger producers wanted to disband it. As both groups had to agree for the board to be wound up, it stayed in existence.

This was followed by another ballot in which tomato growers voted overwhelmingly to sell the board's depot for \$1.15m and share the \$800,000 net proceeds.

### More conventional

Local MPs agreed to strip the board of its compulsory powers but the proposal that the States should buy the premises proved more controversial.

Under a 1952 law, the assets belong to the growers shipping through the board in any given year. No one foresaw when the law was framed that the original 2,000 registered producers would drop to 190 and that the board would possess more than \$1m worth of property.

The hundreds of former tomato growers who have switched to other crops or retired felt that they had a

claim on the assets. Surviving producers insisted that they alone were entitled to the assets and that the share-out would be only a small compensation for losses.

Some island MPs questioned why taxpayers should spend a further \$1.15m on buying the depot when the tomato industry had been subsidised through a price support scheme. In the end, the sale went through and the depot has been rented back to the board.

With the revolution over, the prospects for Guernsey horticulture look brighter. A reshaped tomato board is set to develop into a Guernsey Produce Marketing Board, handling all edible crops. Flower exports are also expanding.

While tomatoes will take up only a sixth of the glasshouse area next year, growers are less pessimistic. There has been a drop in the price of heavy fuel oil and, in any case, fewer growers are risking the extra heating costs of producing an early crop.

Meanwhile, a legal doubt hovers over the right of this year's registered tomato producers to their cash share-out without the board being liquidated and a court decision may be needed.

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Queen's House, 13-15 Don Road, St. Helier,  
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## Setting limits to growth

CONTINUED FROM PAGE ONE

Islands currency is not one most people wish to contemplate even though, Bermuda has shown that it is technically feasible for a small island community.

That such speculation exists is a vivid illustration of the vital importance of the finance sector to both islands, and of their need in the mid-1980s to maintain the confidence of international investors.

This month's report of the Jersey States economic adviser on the Budget suggests that the finance sector now accounts for more than 30 per cent of the island's income—considerably more if the investment income from individuals and companies from abroad is included—and that the growth of these activities in the last year is largely responsible for a 1985 budget surplus of \$13.4m.

Most of the current economic growth in Guernsey, according to last month's economic report to the Guernsey States advisory and finance committee, is also "due to the finance industry" and the majority of the 1,000 or so new jobs created since the beginning of 1984 have been in the finance or service sectors.

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## SECTION II - COMPANIES AND MARKETS FINANCIAL TIMES

Wednesday December 18 1985



### Continental Illinois shakes off 'safety net'

By William Hall in New York

CONTINENTAL Illinois, the big Chicago banking group which had to be rescued by US bank regulators last year after a run on its deposits, announced yesterday it was disbanding its special funding "safety net" provided by leading US banks.

The announcement that Continental Illinois can fund itself in the world's money markets without special assistance for the first time in more than 14 years is a milestone in the bank's financial recovery and comes earlier than many people had expected.

It means that for the first time since US bank regulators mounted their \$4.5bn permanent assistance package for Continental Illinois in the summer of 1984, the group is able to fund itself normally.

This is an important test of confidence in the view of bankers who have watched the group's efforts to rehabilitate itself after its problems. The Federal Deposit Insurance Corporation (FDIC) pumped in extra capital, brought in a new top management team and stripped out most of the bank's problem loans. However, international confidence in the group had sunk to such a low ebb at one stage last year some analysts were sceptical Continental could attract enough deposits to maintain a sizeable banking group without long-term assistance.

As part of the \$4.5bn permanent assistance package provided to Continental last year, the US Federal Reserve pledged to continue supporting the bank as long as the FDIC was involved and a group of commercial banks also undertook to maintain a \$5.5bn safety net facility.

At its peak in August 1984 special assistance from the Federal Reserve and the safety net totalled almost \$12bn. Mr John E. Swearingin and Mr William Ogden, brought in by the FDIC to restore Continental's fortunes, said yesterday that "we now stand on our own feet in all the financial marketplaces of the world in securing funding for our operations".

Continental has not borrowed from the Federal Reserve in more than three months.

### Deutsche Bank plans wide sale of Flick stake in Daimler-Benz

By JOHN DAVIES IN FRANKFURT

DEUTSCHE BANK of West Germany is offering the Flick group's 10 per cent stake in the Daimler-Benz motor vehicle concern for sale for DM 3.8bn (\$1.52bn).

The bank announced yesterday that it was offering Flick's 3.4m Daimler-Benz shares to investors at a price of DM 1,120 a share, payable on January 1. The shares, which qualify for the full 1985 dividend, will be sold through a broad international consortium for a wide spread of ownership.

The offer price is slightly over DM 100 less than yesterday's closing price of DM 1,220.50 for

Daimler-Benz shares on the Frankfurt Stock Exchange. The market price fell DM 31.50 during the official trading, losing most of the previous day's gains.

The Daimler placement follows Deutsche Bank's decision to take over the privately owned Flick empire from the beginning of January for about DM 8bn, for subsequent phased disposal to investors.

After acting promptly to sell off the Daimler stake, Deutsche Bank will arrange a stock market flotation for a holding company bringing together the "core" businesses in the Flick empire - the Feldmühle

papermaker, the Dynamit Nobel chemical concern, and Buderus, the iron and steel group. Shares in the holding company are expected to be offered to investors in a few months.

It has already been announced that W.R. Grace, the diversified US company, will exercise its option to buy back Flick's 26 per cent stake in it for \$595.9m.

Deutsche has stressed that it aims to spread the Flick interests as widely as possible. It has also indicated that it faces a substantial tax bill after the sale of the Daimler and Grace stakes.

### Thyssen to pay first dividend since 1982

By Our Financial Staff

THYSSEN, the West German industrial group whose big steel unit this week reported a strong recovery in profits, plans to pay its first dividend since 1982.

The company said yesterday that earnings for the year to September, 1985 had shown a substantial advance. It plans to pay a dividend of DM 5 a share, DM 3 more than in 1982.

Thyssen will not be announcing profits figures until early next year, but yesterday it was prepared to disclose an increase from DM 32.4bn (\$12.8bn) to DM 34.8bn in turnover last year.

Thyssen said all divisions operated at a profit. As a result, group earnings for 1984-85 substantially exceeded the DM 181m net returned for the previous year.

The group had made a good start to 1985-86. The 1985 results showed that "Thyssen was on the road to strengthening its earnings potential".

Steel division sales rose 12 per cent to DM 11.5bn. Sales of the capital goods and processing units expanded 6 per cent to DM 10.4bn with Thyssen Industrie, the major capital goods manufacturer, being able to increase earnings considerably.

### Bosch to step up Austrian operation

By Jonathan Carr in Frankfurt

ROBERT BOSCH, the West German electrical and vehicle parts group, plans to boost its activities in Austria in the field of fuel-injection technology.

Bosch is to raise from 26 per cent to nearly 90 per cent its stake in Friedmann und Maier, a maker of fuel-injection components based in Hallein, Austria, which had sales this year worth about Sch 240m (\$13.5m).

restructuring of the SDS Biotech/Vertac operations, the SDS research and development (R&D) activities would be sold off to a group of outside investors for about \$80m.

The Swedish group would take a stake of about 30 per cent in the new R & D company.

The SDS Biotech/Vertac acquisitions will enable Fermenta to expand its operations into animal health and animal feed and provide a substantial base for growth in the US as well as in Central and South America and the Far East.

### Hertie manager chosen to spearhead return to profit

By OUR FRANKFURT STAFF

HERTIE, the loss-making West German department store group, has named a new management chief to head its efforts to return to profitability.

Mr Jürgen Krüger has been named "spokesman" of the management board, in effect taking over from Mr Bruno Lippmann, who resigned suddenly as president of the board nearly 10 months ago.

The difference in title reflects the fact that the management board has operated as a "collegiate team" since Mr Lippmann's departure, according to the company.

Hertie runs more than 100 stores

throughout West Germany, making it the country's third-largest department store group with sales of DM 5.72bn (\$2.27bn) last year. It is largely owned by private trusts.

Like other retail stores, Hertie has been affected in recent years by a combination of intense competition and recession, but has found it harder than some rivals to make a turnaround. Last year was its eighth consecutive year in the red, with operating losses in this period of DM 517m.

Mr Lippmann resigned in the middle of a controversy about the correctness of Hertie's strategy,

which included store modernisation and more emphasis on quality and design. As part of the new strategy, the company announced recently that it would close three stores in the Ruhr area but then agreed to postpone the move after trade union objections.

Mr Krüger, who is 44, has been on the management board of Hertie for only two years but is a veteran of 26 years in the retail trade, including experience in the US, France and Sweden.

He had management responsibility for Hertie's sales division and is to retain this role.

### Fermenta finalises US acquisitions

By KEVIN DONE IN STOCKHOLM

FERMENTA, the Swedish fine chemicals and biotechnology group, has completed the takeover of SDS Biotech and Vertac in the US, its biggest acquisitions to date.

The cash and shares deal is worth about \$118m. Fermenta said it had paid \$94m in cash and was issuing 3m new shares to finance the deal.

Fermenta free shares, which have risen rapidly during the autumn, closed at SKr 240 (\$31) yesterday. Since Fermenta went public

in June 1984 the share price has risen 1,029 per cent.

SDS Biotech was jointly owned by Diamond Shamrock and the Vanderbilt Development Holding company, while Vertac has been acquired from Dyicon Investment.

The two companies have a joint turnover of about \$300m and a workforce of 1,100. The takeover is expected to double Fermenta's turnover over next year to more than SKr 3bn.

Fermenta said that, as part of the

### BP to pledge \$26m in deal with Ecuador

By Hugh O'Shaughnessy in London

BRITISH PETROLEUM (BP) is to invest \$26m in oil exploration in a 200,000 hectare (494,000 acre) block in Ecuadorian Amazonia, according to a contract due to be signed with Cepe, the Ecuadorian state oil company, in Quito later today.

The deal highlights BP's growing interest in Latin America. BP's other principal Latin American interests include a number of promising mining ventures. However, some oil exploration projects in Brazil have been disappointing. The group also has service contracts with Petroleos de Venezuela, and is known to be looking hard at opportunities in Argentina.

The BP deal with Cepe has been delayed because of differences over possible future arbitration. Under the present contract, Ecuadorian law will apply in any dispute.

BP will make a grant of \$400,000 to Cepe for the specialist training of Ecuadorian personnel. The deal is the fourth that Cepe has signed with foreign oil companies, others being with Occidental and Exxon in Amazonia and Belco in the Gulf of Guayaquil.

### Bull close to Olivetti link

By David Marsh in Paris

BULL, the French state-owned computer group, said yesterday that it hoped to conclude a co-operation agreement by early January with Olivetti, the Italian office equipment and electronics company, to develop and produce automatic banking machines.

Bull gave no further details about negotiations taking place between the two concerns. Bull, through its Transpac subsidiary, already has a significant stake in the French market for cash dispensers and automatic bank tellers.

As part of France's bid to set up a nationwide banking and retail payments system using a uniformly accepted banking card, an estimated 8,700 machines of both types were installed in France in mid-1985.

Bankers believe the pace of installation is flattening out, which may be forcing Bull to look more actively at expansion possibilities abroad.

### Manufacturers Hanover reorganises CIT unit

By PAUL TAYLOR IN NEW YORK

MANUFACTURERS Hanover, the fourth-largest US banking group, yesterday announced an extensive reorganisation of its CIT financial unit, involving the creation of five strategic operating units, the redeployment of \$2.4bn in assets and the appointment of a new senior management team.

Separately, the banking group's board approved a 1 cent a share increase in Manufacturers Hanover's quarterly dividend to 81 cents a share.

The moves at CIT are aimed at streamlining and enhancing profitability at the unit, which Manufacturers Hanover acquired from RCA in May last year for \$1.51bn and which reported \$137.1m net income last year.

The changes will refocus CIT's activities on business and corporate lending - transferring its consumer lending operations to another Manufacturers Hanover subsidiary - and result in a wide-ranging consolidation of the parent holding company's non-bank subsidiaries.

Following the reorganisation CIT will have five new market-oriented operating units: commercial finance, equipment finance and leasing, factoring, sales finance and special corporation products. This will reposition CIT as a nationwide business-to-business lender with more than \$8bn in assets and 108 offices.

As part of the reorganisation about \$1.2bn of domestic equipment financing receivables will be trans-

ferred from Manufacturers Hanover Leasing to CIT. About the same volume of direct consumer loans will be transferred from CIT to Manufacturers Hanover Financial Services, the group's consumer finance subsidiary, turning the unit into a \$2.8bn consumer finance company with more than 643 offices.

Mr John McGillicuddy, Manufacturers Hanover chairman, said: "This rationalisation of our key non-bank subsidiaries, placing assets with similar characteristics under common management, will sharpen the management and marketing focus of two high-return high-priority sectors - asset-based lending to the national middle-markets and consumer lending on a national basis."

### Eurodollar market gets lift

ANOTHER strong performance by the New York bond market helped the Eurodollar market to make gains, although it was still lagging, writes Maggie Urry in London. Some good demand was seen in the secondary market and prices gained around 1/4 point. The rise ensured a good reception for a \$125m, 10-year issue for Statoil, the Norwegian state oil company. The bonds are unsecured and unsubordinated.

This deal, led by Deutsche Bank Capital Markets, was priced at a yield 28 basis points above the US Treasury yield curve. The coupon is 9 1/4 per cent and issue price 100 1/4 with fees of 2 per cent. The issue traded well inside the fees however, at a level within the 1 1/4 per cent selling concession.

In the floating-rate note market Credit Lyonnais gave a mandate to Shearson Lehman Brothers International to act as sole manager and underwriter on a \$150m, seven-year deal. Shearson performed the same task for a World Bank fixed-rate deal last week. By not syndicating an issue with a number of co-man-

agers, the lead manager can keep tight control of the bonds and the deal can perform better. The disadvantage could be that a good secondary market in the bonds might not result, although Shearson expects a number of market-makers to trade this issue.

Although the terms looked tight at a coupon equal to six-month London inter-bank offered rate (Libor), with front-end fees of 10 basis points, the bonds were quoted at 98.95.

In the Japanese domestic market China International Trust and Investment Corporation (Citic) launched a \$100m "Shogun" deal. Yamachi Securities set the terms at a 10-year life, 9 1/4 per cent coupon and 100 1/4 issue price.

The Euroyen market has also been rising on the back of a firm domestic market. Syntex USA, a subsidiary of Syntex, the pharmaceutical and chemical company, launched a \$200m seven-year bond with a 6 1/4 per cent coupon and 101 issue price. LTCB International is

lead manager. Fees totalled 1 1/4 per cent and the bonds were trading just within that discount.

A dual-currency issue for Sumitomo Metal Industries was launched for Nikko Securities (Europe). This is for \$200m with redemption at an exchange rate of ¥181.5 to the dollar. The coupon is 8 per cent and issue price 101 1/4 per cent. Fees totalled 2 per cent. The bonds were not trading actively.

Turnover was unexpectedly high in the "D-Mark" bond market, spurred by the New York market and hopes for interest rate cuts. Prices gained 1/4 point on average, with buying demand seen from abroad.

The Swiss franc foreign-bond market saw reasonable volume. The undertone was positive although prices were little changed. New Zealand Railways \$Fr 150m perpetual issue traded for the first time yesterday, closing at 98 1/4 compared with the 98 1/4 issue price.

International bonds service, Page 17

### Notice of Redemption to holders of CIBA-GEIGY Overseas Finance N.V.

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The condition precedent to the right of CIBA-GEIGY Overseas Finance N.V. to redeem the Bonds, contained in the Condition 8 (C), has been satisfied since the last paid price on the Zurich Stock Exchange of the Bearer Participation Certificates ("BPCs") on each day on which there was such a price within the 30 calendar days preceding the 15th calendar day prior to the date of this notice was equal to or in excess of 140 per cent of the Conversion Price prevailing at the close of business on each such day. "Conversion Price" means the principal amount of a Bond divided by the number of BPCs (including fractions) into which one Bond is convertible.

The Bonds are convertible until the close of business on 23rd January, 1986 into BPCs of SFR 100.00 par value each at the rate of two BPCs for each Bond of U.S.\$1,350.00 principal amount.

The Bonds, together with all unmaturing interest coupons, must be surrendered for payment to any of the paying agents set forth below. Payment of the redemption price and accrued interest will be made in U.S. Dollars in accordance with the conditions of the Bonds. Interest will cease to accrue on the Bonds as from 23rd January, 1986.

In order to exercise the right of conversion, the holder of any Bond shall deliver such Bond during normal business hours to the office of the conversion agent, with the request for conversion thereon duly completed. Conversion will become effective on the date (the "Conversion Date") on which the Bond is delivered to the conversion agent together with any payment required of the Bondholder in respect of any missing unmaturing coupons. The Bondholder must pay all stamp, issue, registration or other similar taxes and duties (if any) consequent upon the issue or delivery of the BPCs to or the order of a third party.

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NEW ISSUE

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NOVEMBER 1985



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New Issue

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December 18, 1985

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Amsterdam, Netherlands

DM 150,000,000  
3½% Deutsche Mark Bearer Bonds of 1985/1995

with Warrants attached to subscribe for 750,000 Bearer Shares of

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unconditionally and irrevocably guaranteed by

## KAUFHOF

Aktiengesellschaft  
Köln, Federal Republic of Germany

Issue Price: 100% Interest: 3½% p.a., payable annually in arrears on December 19. Redemption: on December 19, 1995 at par Denomination: DM 1,000. Security: unconditional and irrevocable guarantee of Kaufhof Aktiengesellschaft, Köln, Federal Republic of Germany, Negative Pledge Clause. Warrants: each DM Bearer Bond will be issued with 2 Warrants attached giving the right to subscribe 5 shares (one giving the right to purchase 1 share and one giving the right to purchase 4 shares) of Common Stock of Kaufhof Aktiengesellschaft at a subscription price per share of DM 315. The subscription period will be from January 27, 1986 through December 19, 1995. Listing: Düsseldorf and Frankfurt/Main Bonds and Warrants

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## INTL. COMPANIES & FINANCE

### Further receivership in Singapore

BY CHRIS SHERWELL IN SINGAPORE

A SUBSIDIARY of Growth Industrial Holdings (GIH), the publicly quoted Singapore company which holds a 31.6 per cent stake in the troubled Pan-Electric Industries, has been placed in receivership by one of its half-dozen bank creditors.

The move by First Interstate Bank of California, draws further attention to the problems facing GIH, which, like Pan-Electric, is faced with sizeable obligations to purchase shares in quoted companies on a forward basis.

It was Pan-Electric's inability to meet similar commitments to buy \$5140m (US\$66m) worth of shares which ultimately led its 37 creditors to place it in

receivership on November 30. In an unprecedented move, the authorities then closed the Stock Exchange for three days while a \$5180m rescue package was worked out for vulnerable trading firms.

Mr. Peter Tham, a stockbroker now being sought by the Singapore authorities, was a director of both Pan-Electric and GIH until June this year. Associated Asian Securities, his broking firm, subsequently became 25 per cent controlled by GIH, but suspended trading after the stock market reopened on December 5.

Attention has since focused on GIH and Pan-Electric. Datuk Mohamad bin Rahmat, a Malaysian, resigned as a director of GIH after little more than three months, leaving a three-man board which included two directors of Pan-Electric. At the same time, GIH appointed Samuel Montagu, the British merchant bank, as financial adviser and Arthur Young, the accounting firm, to prepare an independent report on the company.

Last Friday it was revealed that Arthur Young was investigating "the validity of certain arrangements to acquire shares in certain companies" and had been given full financial control of GIH. No figure has been revealed for the value of the company's forward contracts.

The move by First Interstate related to Rizum-Marine, a GIH subsidiary which has a single vessel laid up in a Singa-

pore dock. Other foreign bank creditors are Citibank and Standard Chartered which are also creditors of Pan-Electric, and some Malaysian banks.

All of Pan-Electric's 37 bank creditors have meanwhile accepted the terms of a rescue plan agreed last week between their steering committee, Pan-

Electric's receivers, and Mr. Tan Koon Swan, the Malaysian entrepreneur who indirectly holds a 22.6 per cent stake in Pan-Electric.

A report by Price Waterhouse, the receivers, is believed to show Pan-Electric's net asset value at little more than one third of the \$5160m in shareholders' funds published in the annual report in June.

### Standard Chartered in HK restructuring

BY MICHAEL CASSELL, PROPERTY CORRESPONDENT

STANDARD Chartered Bank is restructuring its Hong Kong operations and has decided to go ahead with plans to build a new regional headquarters in the colony.

Announcing the reorganisation of its Asia-Pacific regional operations, Mr. William Brown, the bank's area general manager, said the decision reflected the additional responsibilities assumed by the Hong Kong operations for business in Japan, Korea, the Philippines, China, Macao and Taiwan.

Lord Barber, chairman of Standard Chartered, added: "The redevelopment of our building is a clear vote of confidence in Hong Kong as a major financial centre in Asia; it also lays the foundation for our projected growth in the Asia

Pacific region into the next century."

The 40-storey building, in Hong Kong's Central district, will rise to 182 m and will provide 364,000 sq ft of office floor-space. The bank says that the cost of the development will not exceed HK\$600m (US\$76.9m), including construction and fitting out.

The new headquarters, on the site of the bank's existing building, will be just 2 m taller than the adjacent Hongkong and Shanghai Bank building, which has recently been completed at an officially stated cost of HK\$5bn. Unofficial estimates, however, have put the total cost as high as HK\$9bn.

During redevelopment, expected to start in mid-1986, bank staff will move into Edinburgh Tower, a nearby office building owned by Hongkong Land. On completion of the new regional headquarters in 1989, the bank will, in order to offset some of the construction costs, consider allowing investors to buy subsidiary leasehold interests in the building.

Central to the restructuring programme, effective from January 1, 1986 and designed to provide a greater degree of autonomy for regional operations of the UK-based bank, is the establishment of five divisions, each run by a senior manager reporting to a chief manager for Hong Kong.

The five divisions are retail banking, commercial banking, corporate banking, treasury and banking operations.

Mr. Brown also said that a new strategy was being prepared for the bank's China operations. Earlier this month, the bank's Shenzhen office was upgraded to a branch and it is also seeking the same classification for its Xiamen representative office. The bank has offices in Peking and Canton and also operates a joint-venture leasing company in China.

● Jardine Matheson's property disposal programme is continuing with the sale to a private investor, for HK\$254.5m, of Broadwood Park, a 62-unit residential development in eastern Hong Kong Island. Since the start of the year, the group has sold two properties in London for a combined HK\$363m and also raised HK\$164.5m through property sales in Hawaii.

### Sumitomo Metal cuts workforce

SUMITOMO METAL Industries, a large Japanese steelmaker, said yesterday it is to cut its 27,000 workforce by 3,800 or 14 per cent under a three-year plan focussed on streamlining the steel division and an expansion of new businesses including electronics. Kyoto reports from Osaka.

The 1986-88 plan calls for the transfer of 700 workers to new divisions and 2,000 to some 30 Sumitomo group companies. The remaining 1,100 will be shed through retirement.

### Early listing for NTT

BY YOKO SHIBATA IN TOKYO

THE TOKYO Stock Exchange (TSE) is to free the way for an early listing of Nippon Telegraph and Telephone (NTT) shares following the sale of part of its equity, currently all held by the Japanese Government.

The Ministry of Finance plans to sell up to 1.95m NTT shares in the fiscal year which starts next April. The TSE has decided to adopt a flexible approach in applying the "floating stock ratio" requirement which stipulates that the proportion of shares not owned by the 10 largest shareholders must stand at 20 per cent or above at

the time of listing.

If this ratio is computed on the basis of 15.6m NTT shares outstanding, a listing next year would be impossible. As a result, the TSE intends to meet the requirement by basing the calculation solely on the number of NTT shares for sale.

The Government is expected to unload part of its holding after the telecommunications company announces its first full set of annual results around May next year.

NTT, opened to competition last April, has a national issued capital of ¥780bn (\$3.85bn).

### First Pacific to float Asian investment unit

FIRST PACIFIC, a Hong Kong-based merchant bank, is planning a public float of a new incorporated investment company, FP Special Assets, AP-DJ reports from Hong Kong.

FP Special Assets, which will invest in Asian property and securities is to take over the public listing of Wheelock Maritime International, a shipping company which went into liquidation earlier this year.

Shareholders of Wheelock Maritime will be entitled to shares in FP Special Assets, as will shareholders in First Pacific

This announcement appears as a matter of record only.

# NOKIA

## Nokia Corporation

### U.S. \$125,000,000

#### Multiple Facility

Lead Managers

Citicorp Investment Bank Limited

Union Bank of Finland Ltd. • Kansallis Banking Group

Managers

Citibank, N.A. • Union Bank of Finland (Singapore) Ltd. • Kansallis-Osake-Pankki

Bank of America NT &amp; SA • Banque Indosuez

Banque Nationale de Paris • Banque Paribas • Credit Suisse

Gulf International Bank B.S.C. • The Mitsubishi Bank, Limited

National Westminster Bank Group • Skandinaviska Enskilda Banken

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Citicorp Investment Bank Limited

December 12, 1985

CITICORP INVESTMENT BANK



## European Investment Bank

U.S. \$200,000,000

10 per cent. Notes Due 1990

Notice is hereby given that the final instalment of 75 per cent. of the principal amount of the Notes is due on, and for value, not later than 10.00 am (New York time) 20th December, 1985. Persons shown on the respective records of Cedel S.A. and the Euro-clear System as being entitled to the Notes may instruct Cedel and Euro-clear to debit their respective accounts at Cedel or, as the case may be, Euro-clear with the final instalment on their Notes and to credit, value 20th December, 1985, the same to Barclays Bank plc, 100 Water Street, New York, NY 10005, account number 050-77370-4.

On or after 20th January, 1986, European Investment Bank may elect (without giving published notice) to forfeit any Note in respect of which the final instalment shall not have been duly paid, whereupon European Investment Bank shall be entitled to retain the first instalment on such Notes and shall be discharged from any obligation to repay such instalment or to pay interest for any period, but shall have no other rights against any holder whose rights are so forfeited, or against any previous holders.

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## Sumitomo Trust & Banking Co. Ltd.

U.S. \$20,000,000

Floating Rate U.S. Dollar Negotiable  
Certificates of Deposit Due 13th February, 1987  
Callable at the issuer's option  
on 13th February, 1986

In accordance with the terms set out in the Certificates, The Sumitomo Trust & Banking Co., Ltd. have elected to exercise their call option. The Certificates will therefore mature on the 13th February, 1986 and payment will be effected on the principal amount plus interest at 8½% p.a. at The Sumitomo Trust & Banking Co., Ltd., London.

**Merrill Lynch International Bank Limited**  
Agent Bank

U.S. \$150,000,000



## MARINE MIDLAND BANKS, INC.

(Incorporated in Delaware)

### Floating Rate Subordinated Notes Due 2009

In accordance with the provisions of the Notes, notice is hereby given that for the three month Interest Period from 18th December, 1985 to 18th March, 1986 the Notes will carry an Interest Rate of 8½% per annum. The interest amount payable on the relevant Interest Payment Date which will be 18th March, 1986 is U.S. \$204.69 for each Note of U.S. \$10,000 and U.S. \$1,023.44 for each Note of U.S. \$50,000.

**Credit Suisse First Boston Limited**  
Agent Bank

### NOTICE OF PREPAYMENT

#### THE SAITAMA BANK, LIMITED

(Incorporated with limited liability in Japan)

### US\$30,000,000 Callable Negotiable Floating Rate Dollar Certificates of Deposit

Certificate No. P 000001-000030 issued on 28th January, 1984, maturity 29th January, 1987 callable in January, 1986. The Notice is hereby given that in accordance with Clause 3 of the Certificates of Deposit (the "Certificates") The Saitama Bank, Limited ("The Bank") will prepay all outstanding Certificates on 29th January, 1986 (the "Prepayment Date") at their principal amount. The payment of the principal amount, together with accrued interest to the Prepayment Date, will be made on the Prepayment Date against presentation and surrender of the Certificates at the London Branch of the Bank. Interest will cease to accrue on the Certificates on the Prepayment Date.

**CHEMICAL BANK INTERNATIONAL LIMITED**  
London  
as Agent Bank







## UK WHITE PAPER ON BANKING SUPERVISION

## Changes needed to maintain confidence in system

EFFECTIVE SUPERVISION is essential to maintaining confidence in the banking system, Mr Nigel Lawson, the Chancellor of the Exchequer, says in his forward to the White Paper.

But while last year's rescue of Johnson Matthey Bankers has pointed out the need for improvements, "the rapidly-developing nature of banks and the banking system makes it all the more important to address these weaknesses speedily and effectively, without at the same time hobbling British banks with excessive regulation."

The White Paper proposes both legislative and non-legislative changes to reinforce steps already taken by the Bank of England. It has also been framed as part of broader interlocking proposals for building societies and financial services. "It is essential that, taken together, the new arrangements provide effective supervision, capable of dealing with the whole of the rapidly changing financial services sector, and with every individual group and company within it."

The measures will also help combat "the cancer" of financial fraud, Mr Lawson says.

The background. Rapid changes in financial markets are prompting major reviews of banking practices in many countries. But while the primary role of the banking supervisor is to minimise the risk of loss for depositors, the Government is keen to avoid creating a heavily and precisely regulated system. The proposals take into account the recommendations of the Review Committee set up under Mr Robin Leigh-Pemberton, the Bank of England Governor, after the Johnson Matthey affair. The Government aims to bring in a Banking Bill to reform the 1979 Banking Act as soon as possible.

Board of Banking Supervision. The White Paper's main recommendation is the creation of a board within the Bank to help the Governor with his banking supervisory duties. Members of the board will be appointed by the Governor, with the agreement of the Chancellor. Membership will consist of the Governor and Deputy Governor and the executive director of the Bank responsible for banking supervision, as permanent ex officio members; together with five other members selected from outside the Bank on the basis of relevant skills and experience. It is envisaged that membership will include senior bankers, either recently retired or having no executive responsibilities in the

private sector, and members with legal and accountancy qualifications. Members will serve for a fixed term, and will be remunerated by the Bank.

The annual report of the Chancellor, which is made by the Bank under Section 4 of the Banking Act and laid before Parliament, will include a separate section by the Board giving an account of their work over the previous year and expressing their views on current issues within the field of banking supervision.

The areas on which the board will provide advice to the Governor are the following:

- Broad issues involving the supervision of institutions authorised under the new banking supervisory legislation. This will include reviewing papers prepared by the Banking Supervision Division on developments concerning the main principles of banking supervision, such as banks' capital adequacy and liquidity.

- The development and evolution of supervisory practice. Much of the work of the supervisors consists of translating the principles of banking supervision into practical rulings. Flexibility of treatment to take account of individual institutions' circumstances has to be reconciled with even-handedness and "level playing fields."

- The Board will receive periodic reports from the Banking Supervision Division of the Bank on developments in its rulings and decisions affecting individual institutions.

- The administration of the new banking supervisory legislation. The board will review regular reports from the Banking Supervision Division describing the way in which it is administering the new act and referring to its treatment of individual cases.

- The structure, staffing and training of the Banking Supervision Division. Progress on the proposed changes in the current numbers and training of supervisory staff will be reported, from time to time, to the board for their views. The board will offer guidance, inter alia, on the programme of secondments from outside organisations.

If on any occasion he disagreed with the views of the board's outside members, the Governor would still have the power to disregard their advice. But if he were to do so, he would have to inform the Chancellor.

Other changes at the Bank include establishing a standing committee on banking supervision, and the appointment of an executive director with specific responsibility for banking supervision. The supervision department has also been streamlined and enlarged.

The Two Tier System. The distinction between recognised banks and licensed deposit-takers created by the 1979 Banking Act is to be abolished, and replaced by single authorisation criteria.

The Banking Act requires that "the business of a recognised bank" will be carried on with integrity and prudence and with those professional skills which are consistent with the range and scale of its activities. Licensed deposit-takers must conduct their business prudently, and be owned, directed and managed by fit and proper persons. The Government accepts the Review Committee's recommendation that the sense of both these requirements be combined in the new legislation and applied to all institutions.

Two of the additional requirements presently required for recognised banks will be dropped from the unified authorisation criteria. There would be no point in requiring all authorised institutions to provide a wide range of banking services. And to insist on high reputation and standing in the financial community would have the effect of debaring new deposit-taking companies from authorisation.

It will continue to be a requirement for authorisation that at least two individuals effectively direct the business of authorised institutions.

Licensed deposit-takers are currently required specifically to have adequate capital and liquidity for their operations and adequate provisions for bad debts. Recognised banks must also observe these criteria, though the criteria are spelt out in the statute less explicitly. In the new Act, these requirements will be modelled on those presently applicable to licensed deposit-takers. It will also provide that institutions, both large and small, must have adequate internal control systems and adequate accounting records.

Institutions will need minimum net assets of £1m to operate as a bank, and issued capital of £5m if they want to include the word "bank" in their name. Loans to directors on beneficial terms will be limited to £50,000.

Relationship between supervisors and auditors. Auditors will be required to play a greater role in supervision. The Government now proposes to



Nigel Lawson: combat cancer of fraud

introduce the following arrangements:

- The new legislation will require that authorised institutions should maintain appropriate books and records and internal control systems, and that (regular and ad hoc) reports by accountants to the supervisors on the adequacy of such control systems and on other matters specified by the Bank should be made. The Bank will be empowered to require that banks obtain reports from accountants on their internal controls and other matters which the auditor can properly be expected to address; and that prudential statistical returns to the supervisors be examined periodically by external, qualified accountants. For UK registered banks, the accountants concerned will normally be the bank's auditors. In the case of branches of foreign banks, which are not required to have auditors under the Companies Act, other arrangements will have to be made.

- The Bank will be empowered to require supervised institutions to appoint a second firm of accountants to carry out the work which would normally be undertaken by the accountant described above, if for any reason it is not satisfied with the work already carried out.

- Statutory provision will be made to require an auditor to notify the Bank if he decides to resign or not to seek re-election, or concludes that he should qualify his report on the bank's accounts; and to require a bank to notify the supervisors if it proposes to terminate the appointment of its auditor;

- Existing confidentiality restraints on both supervisors

and auditors will be removed to the extent necessary to facilitate these arrangements;

- Qualified privilege should attach to communications between auditors and supervisors.

The Government is keen not to undermine the relationship between a bank and its auditors but it wants to provide in exceptional cases—such as suspected fraud—for direct contacts between auditors and supervisors without the knowledge of the supervised institution. Though it is prepared to legislate for this, it supports the Bank's efforts to agree non-statutory guidelines instead. These are set out in an annex laying out the duties and responsibilities for auditors to disclose information to supervisors.

Bilateral exchanges between the supervisors and the auditor. In exceptional circumstances the auditor may consider it necessary to hold a meeting with the supervisors or to provide information to the supervisors without the knowledge of his client.

In all cases, before initiating a bilateral exchange with the supervisors, the auditor should consider whether there is a non-executive director or senior manager, or a controlling shareholder, who could appropriately attend the meeting and, if so, he should advise both the director or other party and the supervisors.

Bilateral meetings/exchanges will take place only when to make the client aware of the meeting/exchange (and of the likely subject matter) could be expected to damage the interest of depositors.

Examples of such exceptional circumstances would be: (a) where the auditor had reason to believe that fraud or other misappropriation had been or was about to be committed by the directors of the client bank; (b) where the auditor believed that an individual controller was acting, or likely to act, in an irresponsible or reckless manner with respect to the bank's affairs.

Prudential information and statistics. The Government believes that the prompt and accurate reporting of prudential information and statistics is of central importance to the effectiveness of banking supervision.

They are confident that most institutions will continue to fulfil their duties conscientiously. But, to reinforce the Bank's existing powers to deal with less scrupulous institutions, they have decided to make it a criminal offence knowingly or recklessly to

provide information to the supervisor which is false or misleading in a material particular. This would apply equally to information provided under a statutory requirement and to information provided voluntarily for the purposes of banking supervision.

Concentration of lending and large exposures. The Government believes that the issue of individual exposures to non-bank customers is of sufficient importance to justify statutory backing. It therefore proposes that the new legislation provide for rules requiring automatic notification of any exposure to an individual customer in excess of 10 per cent of a bank's capital base. Exposures in excess of 25 per cent of capital base will require prior notification to the supervisors.

Failure to comply with the requirements will cast doubt on the prudence of a bank's management and on the adequacy of its control systems; and serious breaches could lead to revocation of its authorisation to accept deposits.

Confidentiality and disclosure of information. The Banking Act's restrictions on disclosure of information obtained in the course of supervision need to be amended. This is to enable the dialogue between supervisors and auditors and to enable the Bank to disclose information to other departments of Government, except the revenue department—where it considers it to be in the interests of depositors or in the wider public interest. It is also to facilitate an exchange of information between supervisory authorities, given the growth of financial conglomerates.

Overseas banks. Regulations covering representative offices of foreign banks are to be strengthened. The Government is also concerned about reciprocal access for UK institutions to countries whose institutions establish themselves in the UK, and the Treasury will have power to cancel banking authorisations to eliminate imbalances in commercial opportunity. Further powers in this area will be contained in the forthcoming Financial Services Bill.

Appeals. Decisions on appeals against the Bank's rulings will be taken by a tribunal rather than—as now—by the Chancellor. The White Paper also makes proposals affecting procedures for changes in control of banks, relating to the deposit protection scheme and several other minor matters.

Banking Supervision. Command 9685. HMSO £4.30.

## Supervisory regime likely to be sterner than foreshadowed

David Lascelles on the Chancellor's plan to give tougher powers to the Bank of England

THE BANKING Supervision White Paper comes at an exceptionally turbulent time for UK banking, what with Johnson Matthey Bankers, Big Bang and the allegations of fraud flying around the City.

So it is not surprising that Mr Nigel Lawson, the Chancellor, wants to legislate tougher powers for the Bank of England and tighten the Governor's accountability to him personally.

Altogether, it points to a somewhat sterner supervisory regime than had been foreshadowed in the Bank's own consultative papers earlier this year.

On the other hand, the proposals fall short of creating the all-embracing regulatory regimes adopted by many countries, which aim to preserve the flexibility of the UK system, which is seen as its great strength. The debate over the proposals is bound to centre on where the balance between toughness and flexibility should be struck.

The White Paper should be read in a broad context. Although the whole review of UK banking supervision was triggered by the Johnson Matthey debacle, there was also a case for re-examining the 1979 Banking Act in light of the enormous changes which have occurred in the banking industry in only six years and which are likely to continue as the City Revolution gathers pace and banks take on a new look.

There is also an international dimension. The Bank is taking a leading role in trying to harmonise standards, particularly within the EEC. The White Paper also takes a swipe at countries which do not allow reciprocal access for UK banks—an obvious reference to Japan where the banking market is notoriously restrictive.

The broad aim of the White Paper is twofold: to boost the Bank's supervisory role with fresh statutory powers, many of which it would hope not to have to use except in extremis; and to enable it to co-operate with other supervisors to keep tabs on the new multi-faceted banking-securities conglomerates being formed.

The banking bill will be designed to dovetail with tomorrow's Financial Services Bill covering the investment industry and new legislation proposed for the building societies.

The steel in the White Paper lies in the criminal sanctions

being proposed for bankers who lie to or mislead the Bank of England—all part of the Government's promised crackdown on fraud. The Bank will also get new powers to obtain information from banks, especially about their big exposures, and additional resources to inspect them more closely.

Bank auditors will be drawn into the supervisory process as auxiliaries. The Government has decided not to impose a statutory obligation on them to tell the Bank of serious wrongdoing. But Mr Lawson made it clear yesterday that legislation would be forthcoming if the auditors and the banks fail to agree on guidelines for reporting fraud or recklessness. Given this threat, agreement seems likely.

While the Bank will get new weapons for its armoury, its enlarged powers will not go entirely unchecked. The big surprise—the creation of a Board of Banking Supervision—looks like a Treasury attempt to subject the Bank itself to a measure of supervision. It certainly makes the Governor more accountable and must be designed to appease the many critics of the Bank's policing of the City.

The White Paper received a broad welcome from bankers and accountants last night suggesting that the Treasury has found a middle road on the most contentious issues, mainly the role of auditors and the new definition of a bank—bankers feared it would debase the word. Whether it would have prevented another Johnson Matthey is another matter.

If the act had been in force last year JMB's executive would have run a severe risk of criminal proceedings for giving misleading reports to the Bank and breaching the new limits on large loans to individual borrowers.

With luck the Bank's enlarged staff might also have been quicker to spot trouble. But as the White Paper says: "The supervisor cannot, and should not, guarantee that banks never fail."



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All these securities having been sold, this announcement appears as a matter of record only.

**Provinsbanken**

**DEN DANSKE PROVINSBANK A/S**

U.S. \$60,000,000

**Floating Rate Capital Notes 2000**

(Partly subordinated on issue with the right to subordinate in full)

S.G. Warburg & Co. Ltd.

Bank of Tokyo International Limited

Banque Paribas Capital Markets

Deutsche Bank Capital Markets Limited

Dresdner Bank Aktiengesellschaft

Hambros Bank Limited

Kansallis Banking Group

Merrill Lynch Capital Markets

Mitsubishi Finance International Limited

Morgan Guaranty Ltd

Sumitomo Finance International

Sumitomo Trust International Limited

Swiss Volksbank

Union Bank of Finland Ltd.

Union Bank of Switzerland (Securities) Limited

Yamaichi International (Europe) Limited







## UK COMPANY NEWS

## J. Rothschild net asset value shows small rise

J. Rothschild Holdings reported pre-tax profits of £27.6m for the six months to the end of September 1985, compared with £30m for the six months to the end of June 1984.

Earnings per share for this investment holding company, came out at 4.5p (5p) and based on profit for the financial period were 7p (14.5p). The interim payment is being raised from 1.5p to 2.2p.

Net assets at the end of the period are stated at £26.7p compared with £25.2p six months earlier. The directors estimate that they had risen to £33.3p at November 30, taking quoted investments at current market values.

At the operating level £23.2m (£25.4m) was contributed by the parent company and its subsidiaries, with a further £13.2m (£10.3m) from related and associate companies. The comparable period £4.1m was made by the merchant bank, which has since been sold.

An analysis by activity showed investment holding contributed £2.7m on capital employed of £287.3m. The profit was stated after charging unrealised losses of £10m.

Unrealised profits improved from £38m at the beginning of the period to £43m at September 30.



Mr. Jacob Rothschild, chairman of J. Rothschild Holdings

Other activities reported investment holding profits of £14.6m on capital of £382m; investment banking £4.2m on £41.4m; development capital—US \$11m on £49.9m; financial services £1.3m on £26.4m.

In the period the company bought in 47.7m of its own shares

for a total of £47.1m. A total of 51.6m shares have been acquired to date, representing 11.5 per cent of the issued share capital at February 1 1985. The directors point out that under the Stock Exchange rules the company can buy a further 14m shares before February 1 1986.

Conditional agreement has been reached to sell Aurit Services, the lease broking concern, to Comcap. The total consideration will be about £3.7m, of which £2.2m will be in cash and the rest in Comcap shares.

Central interest payable took £13.8m, against £9.8m in the comparable period.

The tax charge was £8.2m (£9.6m) and with minorities taking a reduced £300,000 (£1.1m), the net profit was almost unchanged at £19.1m against £19.3m.

Realised gains on the investment holding portfolio added a further £9m (£28.7m) and there were no extraordinary items £200,000, less tax.

With dividends absorbing £3.6m (£5.5m), the retained profit for the period came out at £13.3m against the comparable £51.1m. See Lex

Dominic Lawson on the £145m takeover which took the City by surprise

## Charterhouse bows to the inevitable

IN ITS ten-year history Charterhouse Petroleum has continually surprised the City with innovative deals. But none of its coups have caused as much amazement as its latest—to negotiate and recommend a £145m takeover by Petrofina, Belgium's largest industrial company and the world's fourteenth largest oil company.

On Monday, Charterhouse shares had closed at a new low of 66p, as the City showed its growing disenchantment with the UK's independent oil sector. At 5.30 pm Petrofina approached Charterhouse with a bid worth 107p a share. By midnight Charterhouse was ready to recommend the offer.

The bow of anguish by some stockbrokers yesterday brought scant sympathy from Charterhouse chief executive Mr. Tony Craven-Walker. "They didn't expect this bid, and they got caught short. That is why some of them don't like it. One firm of stockbrokers sold Charterhouse shares at 65p each on Monday."

In fact a takeover of, or merger with, Charterhouse was almost a certainty since August with only the identity of the suitor an unknown.

Last July Charterhouse revealed a daring plan for a £188m merger with fellow UK oil explorer Saxon Oil. It was Charterhouse's chosen method of creating a company with assets and resources to grow even when the oil wind blowing through the oil industry would cause less well-backed companies to wither.

But on August 13 Enterprise

Oil, rich with cash stuffed into its balance sheet by the Government's privatisation team, made a cash counter bid for Saxon which was irresistible to any City institutions looking for an opportunity to reduce its holdings in the oil sector.

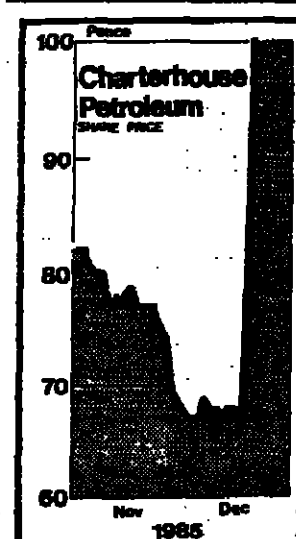
"The UK's independent oil companies need long-term support to grow, and the institutions are no longer willing to take more than a three-month view. What has happened to us today has been inevitable since August 13," says Tony Craven-Walker.

Petrofina was one of several companies which noted the distress signals emanating from Charterhouse after the Saxon fiasco, and while the bid has been speedily approved, it follows months of discussions with the chief of Petrofina's UK subsidiary, Mr. Pierre Jussela.

To be taken out at £145m looks like a fine return for the long-term holders of Charterhouse, who were started by Mr. Craven-Walker with a silver of equity in the Thistle oil field worth no more than £300,000 in 1975.

But to be swallowed up by a multinational oil giant represents failure for a man who left to dazzle the City at Charterhouse at the age of 32 because he did not want to be a cog in a large machine.

To see the end of such a dream obviously hurt. Tony Craven-Walker, though he would not admit it, "I spent the last ten years of my life building this company, but emotion and business should never go together, and this is a hard-headed business decision. We



Mr. Tony Craven-Walker, Charterhouse's chief executive

formed a view that the oil market is going to get a hell of a lot worse, and we are doing the best things by our shareholders, who will probably steamroller us in the rush to take the money."

Tomorrow Tony Craven-Walker was due to be elected chairman of Brindley, the association representing all the UK independent oil companies. But as he conceded yesterday "I don't think I can take the job as a subsidiary of a giant Belgian oil company."

In any case, he has views that are anathema to many of his colleagues in the sector. "I think the UK independent oil sector will have been decimated in a year's time. The major companies with cash are waiting to spring. The real value of Petrofina will precipitate other moves of this kind."

That thought will certainly exercise the Department of Energy, which has a deep dislike of letting UK owned North Sea assets pass into foreign control. Petrofina is the first major foreign oil company to launch a takeover of a UK quoted North Sea company, and clear approval from Government would

obviously mark a precedent for other foreign oil giants.

However, there are several points in Petrofina's favour, which make it appear unlikely that the Government will create trouble over the deal. It is from Belgium, a member of the EEC, which plays host to 600 UK companies. It has been active in the UK since 1920, and the parent company has two directors nominated by IC Gas, a UK quoted company with a 7 per cent stake in Petrofina. If the Department of Energy, does give the all clear to Petrofina, it is likely that they would accompany the decision with discreet messages to other multinational oil companies not to think that they have carte blanche to move in on the UK oil sector.

The more effective predators for the depleted band of independent North Sea oil companies are Enterprise, Brindley and—coming next—British Gas. All these companies have, or will have, cash resources to use to acquire shares, given by Government to prevent their being taken over. All have extensive cash resources to use to acquire shares, given by Government to prevent their being taken over.

This prospect was clearly a factor in Mr. Craven-Walker's decision to take the job as chairman of what he sees as an unequal contest. "If it weren't for the golden share, Enterprise would now be a subsidiary of a foreign company, and we would have merged with Saxon, instead of being taken over by Petrofina."

## Wickes' UK offshoot for USM

BY RICHARD TOMKINS

THE EUROPEAN subsidiary of Wickes Companies, the Californian industrial and retailing group which emerged from bankruptcy proceedings late last year, announced plans for a USM flotation early in the new year.

Based in London, the subsidiary called Wickes is one of Europe's largest retailers of timber, building materials and home improvement products. It has 58 stores—22 in Britain, 23 in the Netherlands and 11 in Belgium.

At present Wickes is wholly owned by Wickes Companies which achieved notoriety by becoming one of the largest US companies yet to file for bankruptcy. The European operations were excluded from the proceedings but have faced significant

changes as part of the recovery plan.

One of the changes has been the installation of Mr. Henry Sweetbaum as chairman and chief executive of the London-based Wickes in 1983. Since then the company has introduced a new trading style and achieved significant earnings growth. Turnover has almost doubled to £103m in the past three years.

Mr. Sweetbaum said yesterday that one reason for the flotation was that Wickes Companies had taken the view that it was time for the subsidiary to finance itself and determine its own future. "It's a fledgling which they have brought to maturity, and now it's time for it to stand on its own feet."

A flotation would also give staff the opportunity to become shareholders.

"It is our intention to have

a fairly substantial stock option and share save scheme and to encourage a high level of share ownership among employees," said Mr. Sweetbaum.

The flotation is likely to be through an offer for sale. Mr. Sweetbaum said that it would leave about 85 per cent of the equity with Wickes Companies and that it was the parent company's long-term aim to remain a major shareholder.

None of Wickes Companies shares would be sold in connection with the issue, he said. All the proceeds would be new money for the subsidiary and would be invested in its development.

The subsidiary had initiated an aggressive store development programme and the funds raised through the flotation would be used to finance its expansion.

## Fobel looks ahead to recovery

Fobel International group incurred a net attributable loss of £880,000 for the first half of 1985 and will stay in the red over the full year.

However, this will relate solely to the past and prospects are excellent, the directors report. There are adequate financial resources and facilities for development of the group's various interests and they are confident that 1986 will show increased turnover, a return to substantial profitability and a higher dividend. The current interim is held at 0.2p.

The loss was expected and compared with a profit of £79,000. The prime reason was the lack of orders in the Hong Kong electronics manufacturing subsidiaries. The position had improved and the division will start 1986 with a full order book which should ensure a return to profitability.

In the UK, the remaining interests have been reorganised to take account of the disposal of the two largest subsidiaries, S. Leboff (Fobel) and Freedman and Mair (Fobel products). This will release further funds and reduce overheads considerably.

The Canadian door manufacturing associate has a successful half year and continues to trade well.

Exchange losses of £193,000 have been written off against the reserve set up for that purpose at the end of 1984.

## DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding payment	Total dividend	Total dividend last year
British Land	1.1	Feb 6	0.75	2.5	2.5
British Steel	2.75	Jan 23	2.25	6.25	6.25
Fobel Int'l	0.2	Feb 1	0.2	2.1	2.1
Irish Ropes	2.1	Jan 31	2.25	8.25	8.25
Mansfield Brewery	1	Jan 3	1.5	1.5	1.5
Micro Scope	0.8	Jan 31	0.63	2.17	2.17
Plasma	2.25	Jan 31	2.25	3.5	3.5
Reliable Food	2.2	Jan 31	1.5	7.5	7.5
J. Rothschild	1.61	Apr 1	1.46	4.38	4.38
Stone Int'l	1	Feb 3	1	2.89	2.89
Eliza Tinsley	1.5	Jan 24	1.4	5.6	5.6
Vital Leasing	4.11	Feb 27	3.5	5.8	5.8
Watson & Philip	4.11	Feb 27	3.5	5.8	5.8

Dividends shown pence per share net except where otherwise stated. \* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. 1 for 15 on this.

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to subscribe for or purchase any securities.

## NORTHAMBER plc

(Incorporated in England under the Companies Acts 1948 to 1976. No. 1499584)

## SHARE CAPITAL

Authorised	Issued	Existing	Proposed
£500,000	Ordinary Shares of 5p each	£370,000	£400,000

Application has been made to The Council of The Stock Exchange for admission of the whole of the issued share capital of Northamber plc to the Official List. These securities are now dealt in the Unlisted Securities Market. In connection with a placing of 600,000 new Ordinary Shares of 5p each, which is subject to shareholders' approval at an Extraordinary General Meeting convened for 10th January 1986, application has also been made for the new Ordinary Shares to be admitted to the Official List.

Listing particulars relating to the Company are available in the Extel Statistical Services and may be obtained during usual business hours on any weekday (Saturdays and Public Holidays excepted) up to and including 3rd January 1986 from:

## SIMON &amp; COATES

1 London Wall Buildings, London EC2M 5PT and from Northamber plc, 5 Chessington Park Industrial Estate, Lion Park Avenue, Chessington, Surrey KT9 1ST. Copies of the listing particulars are also available from the Company Announcements Office up to and including 20th December 1985.

18th December 1985.

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## Mansfield Brewery shortfall

HIGHER FINANCE charges and a 20 per cent decline by its soft drink operations have left the much-magnified Mansfield Brewery with a £333,000 pre-tax shortfall at six months.

The brewing and retailing activities took a £125,000 contribution from the £32m acquisition of Hull-based North Country Breweries and at the operating level pushed their take up from £23.5m to £41.7m, an increase of 31 per cent.

Soft drinks returned lower-than-expected profits of £708,000 (£576,000) as a result of low demand and depressed prices. The benefits of integrating North Country and rationalisation of the combined business will begin to show during the second six months.

The first half year, to September 27 1985, saw group turnover rise from £25.5m to £43.8m. Retail sales were £11.1m (£9.1m) for £23.7m (£20.5m), and soft drinks £15.5m (£18.15m).

Operating profits came through £910,000 ahead at £2,675,000, as taking account income from fixed asset investment amounted to £81,000 (£42,000), a £314,000 (£24,000) surplus from the disposal of properties and finance charges of £184m (£202,000). Pre-tax profits totalled £4.01m, compared with £4.34m (£1.91m) to leave earnings at 15.7p, little changed from the previous 15.6p. The interim dividend is the same at 2.25p net.

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## TI completes disposal and plans further sales

BY DAVID GOOD



## UK COMPANY NEWS

## Argyll unveils its plans for a slimmed Distillers

BY LIONEL BARBER AND MARK MEREDITH

Argyll Group, the UK super-market group, bidding £1.87bn for the Distillers Company, the international Scotch whisky combine, yesterday unveiled its plans for the new group.

In four glossy booklets, combining a heavy sales pitch with a formal offer document, Argyll said it would strip Distillers of most of its West End office network in London and sell its large stakes in BP and the bank of Scotland, jointly worth about £115m. Argyll also said it would dispose of parts of Distillers' food activities but only after close inspection.

However, it dismissed suggestions from DCL that it intended to sell any of Distillers' brands. "Nor will we disrupt the market by disposing of Distillers' excess stocks of Scotch whisky," Mr John Connell, DCL chairman, said he still thought that the Argyll offer was utterly inadequate and Argyll's business experience was wholly irrelevant to the DCL's worldwide drinks business.

In one of the four booklets entitled Twenty Good Reasons why you should accept the Argyll offer, Mr James Gulliver, Argyll chairman, continued to

accuse Distillers management of failure in every area of its business.

Mr Gulliver said that his offer now valued each Distillers' share at 516p, a 73 per cent increase on the price of 298p the day before bid rumours began. Argyll is offering eight new shares and 10 new convertible preference shares plus £14.50 in cash for every 10 Distillers' shares.

DCL shares fell 8p to close at 480p, while Argyll fell 7p to 323p. On the basis of last night's closing prices the offer values DCL at 503p per share. There is a cash alternative of 485p per share.

Mr Gulliver told a news conference in Edinburgh that he would overhaul DCL's overseas distribution and brand marketing, an area where DCL says Mr Gulliver has no experience.

Mr Gulliver added that he would reduce the number of DCL labels, but he stressed that this would not lead to any job losses in Scottish distilleries or bottling plants.

"Relations with overseas distributors is very loose, distributors have not been held accountable in various markets," he said.

Argyll's four-pack offer document, partly designed by Saatchi & Saatchi, the advertising agency, also contains a thin yellow brochure entitled "How to accept the offer," a guide to the various options in Argyll's two-tier offer.

## Weir gets all clear from MoD on Yarrow

By Martin Dickson

Weir Group said yesterday the Ministry of Defence had indicated that it had no objection to Weir's £18m hostile takeover bid for Yarrow, its neighbouring Glasgow engineering company.

The claim, made in Weir's official offer document, follows criticism from Yarrow that the deal would lose customers and contracts for its largest subsidiary, YARD, a specialist engineering company engaged in naval architecture and marine engineering. The Ministry of Defence is YARD's largest customer.

The offer document said Weir was confident it could introduce YARD to worldwide markets and generate additional new business. It added that shareholders were being offered an 84 per cent increase in income.

However, Yarrow's financial adviser, Baring Brothers, said last night that nothing in the document changed the company's view that the offer was ill-conceived and inadequate.

BRASWAY, iron and steel scrap processor and tube and bright bar manufacturer, raised turnover to £12.67m (£10.67m) and pre-tax profits to £604,352 (£490,525) in the half-year ended October 31 1985. Earnings amounted to 5.21p (3.17p) and the interim dividend is lifted to 1p (0.75p) net on the enlarged share of £24,740 (£18,416).

## Martin Dickson on the collapse of the management bid for Molins Why the buy-out was voted out



Mr Christopher Ross, managing director of Molins

THE FLEXING of institutional muscles which led to the collapse yesterday of the planned £49.8m management buy-out at Molins, the maker of cigarette manufacturing machinery, has wider implications for the future of Britain's burgeoning buy-out industry.

For the Molins deal was the first buy-out to be attempted at a publicly quoted British company, apart from Haden, the engineering group, where special factors were involved: Haden was already the subject of a hostile £37m takeover bid, and the £56m paid for the group earlier this year by the management and a group of institutional backers was widely regarded as a fairly full price.

Haden apart, management buy-outs in Britain have to date involved the subsidiaries of companies which want to pull out of peripheral activities and concentrate on core businesses.

Recent examples include the sale by Grand Metropolitan, the hotels, brewing and leisure group, of its Mecca Leisure subsidiary for £95m.

However, in the US management buy-outs of publicly quoted companies — whether or not they are involved in take-over bids — have become very common. The Molins deal was seen, to some extent, as a test for this fashion in the UK.

The institutions, led by the M & C unit trust group and Prudential Assurance, which yesterday rejected the buy-out did so essentially because they felt the company was being sold too cheaply.

The 170p a share offer on the table was only 18p above Molins' share price immediately before the buy-out was unveiled in September.

The institutions felt this constituted insufficient premium for control of the company, particularly given its growth potential under the widely-admired managing director, Mr Christopher Ross.

Molins, which sells more than 90 per cent of its products abroad to private and state-owned cigarette makers, has been on a declining profit trend in recent years: in 1984 it recorded pre-tax profits of £5m, compared to

£12m in 1978.

It is forecasting a rise to £8m this year but has warned that trading conditions in 1986 are unlikely to be materially better than the current year and longer-term prospects depend crucially on the success of new products now under development.

Nevertheless, the institutional investors saw substantial upside potential, given the opportunities for rationalisation and asset disposal and the strength of the management.

For the institutional investors were concerned that a successful Molins buy-out team might seek to float the company again on the stock market in a few years' time, and at a much higher share price. The existing shareholders would then have lost out.

The management, and the institutional investors backing the buy-out — such as Electra Investment Trust, Candover Investments and Schroder Ventures — stand to make sizeable capital gains. The venture capital funds are not in this for charitable reasons.

The uncertainty created by that posture was a factor promoting the buy-out plan.

Nevertheless, the Molins tale is a cautionary one for the buy-out industry. As one leading fund manager put it: "The bottom line is that if there are going to be PLC buy-outs, the management must make damned sure the shareholders are being given maximum value for their investment."

Or, as another one put it: "The question to ask is 'Why do this?' not 'Why not do it?'"

## United Leasing down but sees full year growth

United Leasing has not been isolated from the general trend in the computer industry, but is currently experiencing the highest ever demand for its products and services, reports the chairman Mr Parry Mitchell.

He has no doubt that results for the year ending March 31 1986 will meet expectations and that the high growth traditionally associated with the group will continue. He considers that prospects justify lifting the interim dividend from 1.4p to 1.5p net.

The group has experienced a downturn in the six months ended September 30 1985, with profits before tax being halved to £10.1m. Shareholders were told that the year's result would be even more heavily weighted in favour of the second half but there has been a near £1m loss in the microcomputer division and other adverse factors were start-up costs relating to new business ventures, including the opening of a computer leasing subsidiary in France.

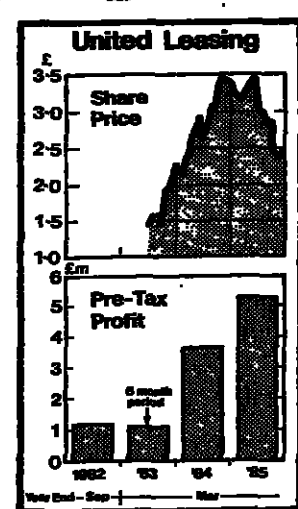
In the established computer leasing and asset based financing division profits exceeded last year. This, says the chairman, was due to the replacement of new products from IBM; also the bringing forward of capital expenditure to take advantage of 75 per cent first year allowances available before March 31 1985 thereafter.

Unilease has financed in the US the first Sierra 3080 processor installed by IBM worldwide. In the UK the group has signed leases on five of the approximately 20 Sierras to be installed before the end of this month and this will contribute to second half profits. By the end of the year the group expects to have installed on lease 18 Sierra worldwide, some costing some £4m.

In recognition of the seriousness of the problems affecting United Business Systems (microcomputers), Mr Mitchell has personally taken over as managing director. A concerted attack has been made on unprofitable business and overheads and the position has improved significantly in terms of turnover and margin.

Mr Mitchell expects the improvement to continue, and looks for future results of UBS fully justifying the decision to diversify into that area of business.

In the half year turnover came to £63.84m, against an adjusted £70.39m. Tax has been charged at 10 per cent — amounting to



£100,000 (£335,000) — to write-off ACT on the interim dividend and provide for tax on the profits of the associate. Minorities cost £75,000 (£127,000) to leave earnings at 5.8p (11p) per share. For the year ended March 31 1986 group pre-tax profit was £5.29m and the final dividend 2.2p.

## Comment

United Leasing's profits slump was enough to have the computer leasing cynics dancing in the streets, but those who succumbed to the urge may find they put their clocks on too soon. The major problem was the group's £940,000 loss on microcomputers: the computer leasing activities themselves were static at around £2m but even the harshest critic would have to concede that the United did well to sustain that level against such a difficult market background. The second half, however, likely to bring a powerful revival. Management changes, staff cuts and an improvement in trading conditions have already brought the micro operations into break-even. On the leasing side, each IBM Sierra delivery adds about £400,000 to the pre-tax profit line, and with 18 deliveries already in the pipeline there is clearly going to be a strong second-half surge. The shares had already discounted the first-half loss and yesterday put on 10p to 247p. With profits of at least £7m in sight on a tax charge of just 5 per cent, the prospective P/E ratio of 5 has the shares looking cheap to those not afraid of the sector.

## Hampton Areas profits slump to £319,000

DISAPPOINTING profits for the half year to September 30 from Hampton Gold Mining Areas, the London-registered natural resources group, are mitigated by news of two potential gold mining operations in western Australia.

However, the shares fell 14p to 123p yesterday following news of the drop in half-year net profits to £319,000, or 1.17p per share, from £781,000 a year ago. The interim dividend is held at 1p.

Hampton Areas says that at its Jubilee gold prospect, near Kalgoorlie in western Australia, the drilling programme has proved ore reserves of over 3m tonnes at a grade of 2.94 grammes gold per tonne. Further reserves in the "probable and possible" category are said to exceed 1m tonnes.

Enough ore has been proven to support a mining operation at a rate of between 400,000 tonnes and 600,000 tonnes of ore a year. A decision to go ahead with a mine will be considered following a detailed feasibility study which is due to be completed in the second quarter of next year.

Meanwhile, the final feasibility study has been completed by Newmont Mining at the Location 50 joint venture in western Australia where Hampton Areas has a 25 per cent interest. Mineable ore reserves are put at 3.5m tonnes grading 2.56g per tonne gold and the partners are to meet later this month to take a decision on mine development.

Burns Anderson, a shopping and financial services group, made £309,551 pre-tax, on turnover of £37.52m in the 1984-85 year. This compares with £668,420 and £28m last time. The dividend is raised from 2.42p to 2.7p with a final of 1.45p (1.72p), with earnings per share at 5.5p (4.4p). The directors are confident of further growth in profits with the financial resources now available from the recent £1.7m rights.

## THE MINISTRY OF FINANCE OF THE KINGDOM OF THAILAND

US\$300,000,000 Floating Rate Notes due 2005

Notice is hereby given that for the interest period 18th December, 1985 to 18th June, 1986 the interest rate has been fixed at 8 1/2%. Interest payable on 17th June 1986 will amount to US\$47,227 per US\$10,000 Note and US\$1,054.77 per US\$250,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

## COMALCO FINANCE LIMITED

US\$180,000,000 Guaranteed Floating Rate Notes due 1993

Notice is hereby given that for the interest period 18th December, 1985 to 18th March, 1986 the interest rate has been fixed at 8%. Interest payable on 18th March, 1986 will amount to US\$20.00 per US\$10,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York London

## British Airways announces pre-tax profits of £201m for the half year.

## BRITISH AIRWAYS HALF YEAR RESULTS

The Board of British Airways Plc announces the results for the six months ended 30th September 1985.

Group Results	6 months ended 30 September unaudited	Year ended 31 March audited*
	1985	1984
	£m	£m
<b>TURNOVER:</b> Airline.....	1640	1491
Other.....	103	82
	1743	1573
<b>AIRLINE OPERATING SURPLUS (Note 1).....</b>	205	236
Operating profit/(loss) on other activities.....	1	(2)
Other income, including related companies.....	16	26
Exceptional item.....	—	—
<b>PROFIT BEFORE INTEREST AND TAXATION.....</b>	222	260
Interest payable.....	(29)	(48)
Currency profits (losses) (Note 1).....	8	(2)
<b>PROFIT BEFORE TAXATION.....</b>	201	189
Taxation (Note 2).....	(1)	(2)
Profit for the period after taxation.....	200	187
Extraordinary items.....	—	—
<b>Profit for the period transferred to reserves.....</b>	200	187

## Note 1

During the 6 months the sterling US Dollar exchange rate moved from US\$1.237 to US\$1.4083. Despite this strengthening of sterling against the US\$ and many other currencies the effect on the overall financial position and in particular the revenue reserves is small. There are three constituent elements as follows:

(i) The Airline Operating Surplus has been reduced by £24m due to normal credit periods allowed to agents resident outside the UK in settling accounts partly offset by similar payments to foreign suppliers. Both forms of settlement have been affected by the erratic movements within the currency exchange markets.

(ii) The liability on US dollar general purpose loans has decreased by £8m which is credited to the Profit and Loss Account.

(iii) The US dollar loans raised specifically for the purpose of financing aircraft and the corresponding dollar cost of these fixed assets has decreased by £40m as a result of the appreciation in the value of sterling during the period. Conversely, the reserves have been credited by an adjustment to past depreciation on those fixed assets of £12m. The effect on the depreciation charge in the period is not material.

The net effect of these is a £4m debit to reserves.

## Note 2

No provision is required for UK Corporation Tax, because of the availability of losses brought forward. On present estimates provision for Deferred Taxation may be required during the financial year ending 31 March 1987. The Taxation charge of £1m is in respect of overseas taxes and tax attributable to related companies.

## Commentary

The volume of scheduled airline traffic in this half year increased over the same period a year ago by 9.5% in terms of passengers and 10.4% in revenue passenger kilometres.

This volume growth has arisen across all geographical markets with particular strength shown in the USA.

Airline turnover has increased from £1491m to £1640m. While the Airline Operating Surplus has fallen from £236m to £205m — for which there are a number of quantified reasons set out in this statement — the pre-tax profits have increased from £189m to £201m.

The Airline Operating Surplus has, in addition to the £24m loss on currency, been affected by the following:

(i) The loss of the profitable Saudi Arabian routes which in the same period last year contributed some £10m to half year profits. The new routes to South America are performing well and prospects are encouraging, but they have yet to contribute profits. Due to conflicts in the Mid-

dle East services to Iran have remained discontinued throughout the period.

(ii) With a much smaller number of Trident aircraft in service in this half year operating lease charges in respect of Boeing 757 and 737 aircraft have amounted to some £20m, compared with a virtually nil cost a year ago. Depreciation charged is little changed at £45m.

(iii) The accident at Leeds in which a TriStar operated by British Airtrons overran the runway, and the loss of the Boeing 737 at Manchester (which led to temporary grounding of aircraft for inspection), have adversely affected the result for the period by an identified £9m. It is believed that this amount may be increased by revenue reflecting some temporary loss of market share to points in Europe but this cannot yet be evaluated.

The cost of aviation fuel although fairly static in the first half of the year has subsequently increased. With lower oil prices on the world markets the outlook for fuel prices should improve.

We are experiencing rejections and delays by the regulatory authorities in seeking approval of new fare proposals.

During the half year net loan repayments amounted to £135m. With the strengthening of sterling the value of borrowings have fallen by £48m over the period, and these now stand at £464m against £474m at 31 March 1985.

Net worth (share capital and reserves) is now £499m compared with £297m a year ago, and a similar amount at 31 March 1985.

\*Comparative figures for the year to 31 March 1984 have been extracted from the audited accounts of British Airways Plc and its subsidiaries upon which the auditors have issued an unqualified audit report. Copies of these accounts have been delivered to the Secretary of State for Transport and filed with the Registrar of Companies.

If you want to know more about the Company send this coupon to Public Affairs, British Airways Plc, (SS3), P.O. Box 10, Heathrow Airport Hounslow, TW6 3JA, for a copy of the Interim Results for the first six months to 30th September 1985 and 1984/85 Report and Accounts.

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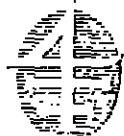
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## 1985 INTERIM RESULTS



# United Leasing plc

## From the Chairman's Interim Statement

64 In my Chairman's statement last July, I wrote that we expected our results would be more heavily weighted to the second half of the financial year than previously. Whilst this is indeed proving to be the case, I remain confident that for the present year in total, our overall targets will be met.

Our pre-tax profits for the six months ended 30th September 1985 were £1,011,000, compared with £2,045,000 for the same period last year. Earnings per share were 5.8p, compared with 11.0p. The Directors however consider that the prospects for the full year justify an interim dividend of 1.5p (1984: 1.5p), which will be paid on 24th January 1986 to shareholders on the register at close of business on 9th January 1986.

The profits of our established computer leasing and asset base financing divisions exceeded those of the corresponding period last year. By 31st December 1985 we expect to have installed on lease eighteen Siemens worldwide, each costing approximately £4 million. Most of these deliveries take place after 30th September 1985, in addition to profits on installation, these machines will offer profitable opportunities for upgrades and supply of additional equipment in the future.

However, the unexpected difficulties in the microcomputer market have adversely affected our overall profitability. We have made a concerted attack on unprofitable business and overheads, and at the time of writing the position in our microcomputer subsidiary has improved significantly both in terms of turnover and margin.

We are currently experiencing the highest level of customer demand for our products and services in our Group's history. I have no doubt in saying to you that not only will our year-end results meet expectations, but that the high growth traditionally associated with United Leasing will continue.

United Leasing plc  
14 Welbeck Street, London W1M 7TF

Parry Mitchell  
Chairman

# DAKS Simpson

## GROUP PLC



"I am confident that our forward momentum will continue."

Johnny Mengers, Chairman

### Principal Group Activities

- Manufacturing — DAKS menswear, womenswear, rainwear and leisurewear for UK and export
- Licensing — DAKS clothing and accessories produced locally in major world markets
- Distribution — The 'DAKS Companions' range of accessories
- Contract — Activon, suppliers of tailored clothing to Marks & Spencer
- Retailing — Simpson Piccadilly, London's leading speciality store

### Results in brief

Year ended 31st July	1985 £'000	1984 £'000
Turnover	39,943	32,945
Profit before tax	2,539	1,468
Profit after tax	1,358	1,003
Ordinary Dividends	364	301
Earnings per share	21.29p	15.69p

Copies of the Report & Accounts can be obtained from The Secretary  
34 Jermyn Street, London SW1Y 6HS

# Eastern Asia Navigation Company Limited

## Interim Report to Shareholders for the Half Year Period ended 30th September, 1985

**Group Profit**  
The unaudited Group profit after transfer to inner reserves and taxation but before extraordinary items for the six months ended 30th September, 1985 was HK\$274.5 million, as compared to HK\$230.7 million for the corresponding period last year. Extraordinary items totalled HK\$140.1 million, of which HK\$132.5 million arose from the Group's investment in associated companies. The Group profit attributable to shareholders of the Company for the six-month period amounted to HK\$134.4 million. Earnings per share after taxation but before extraordinary items improved from 13.2 cents to 16.5 cents.

**Interim Dividend**  
The Board has declared an interim dividend of 3.5 cents per share in respect of the year ending 31st March, 1986. The interim dividend will be paid on 4th February, 1986 to shareholders on record as at 24th January, 1986. The register of members will be closed from 20th January to 24th January, 1986, both days inclusive. In order to qualify for the interim dividend all transfers, accompanied by the relevant share certificates, should be lodged with the Company's Registrars, Central Registration Hong Kong Limited, not later than 4.00 p.m. on 17th January, 1986.

**Business Review**  
The transfer of the ownership of a total of eleven vessels to the charterers and the joint venture partners as a result of negotiations concluded in March 1985 was completed; a 50% owned vessel contracted for sale in June 1985 was duly delivered to buyers in September 1985. A further three vessels were sold between August and November 1985. The Group has also contracted to sell another vessel with scheduled delivery to buyers around January 1986.

As announced in October 1985, the Group is now the largest single beneficial shareholder of Hong Kong Dragon Airlines Limited, a company incorporated in Hong Kong, having an equity stake of approximately 30.2%. It is not expected that this investment will have a material effect on the Group's results for this year.

**Half Year Results**  
The unaudited consolidated results for the six months ended 30th September, 1985 with comparative figures for 1984, are stated below.

Six months ended 30th September	1985 HK\$M	1984 HK\$M
Operating profit after transfer to inner reserves	212.3	212.1
Share of profits, less losses, of associated companies	62.2	8.7
Profit before taxation	274.5	220.8
Taxation	(10.1)	(10.1)
Profit after taxation	274.5	220.7
Extraordinary items	(140.1)	7.2
Profit attributable to Shareholders	134.4	227.9
Earnings per share before extraordinary items	16.5 cents	13.2 cents

By order of the Board, World-Wide Secretaries Limited  
Hong Kong, 13th December, 1985. Secretaries.

## UK COMPANY NEWS

# Orders delay depresses Stone Intl. at halfway

FIRST HALF profits at Stone International, the systems engineering group, were affected by a delay in the delivery of UK and US air conditioning and power systems orders, and the pre-tax outcome was down by £11,000 to £2,026m.

Mr Bryan Jenks, chairman, says that these should come through in the second half, and will have a compensating effect on delivery schedules. He also expects that Andrews Group, the heating and air conditioning concern acquired last September, will contribute more significantly to profits in what is traditionally its strongest trading period.

Because of the confidence that the board feels for the full year outcome, the interim dividend is raised from £1.80 to £1.81, on earnings per share maintained at 6.3p. A much lower tax charge left net profits ahead at £2.41m (22.11p).

Sales came to £44m against £39.04m for the period to Novem-

ber 30 1985, producing operating profits of £3.3m (£3.8m). The weakening of the US dollar at the period end also had an adverse impact, says the chairman, but acquisitions had a beneficial effect. In addition to Andrews, the company has also recently acquired PLC Peters, a manufacturer of doors and closing mechanisms for the transport industries.

In the period under review, the chairman says that order did not have the benefit of last year's £11m Singapore order, but they have again been at satisfactory levels. They included the order for air conditioning for the Italian ultra train (£0.7m), for boilers for British Gas (£1m), British Rail (£0.5m), and for export to South Korea (£0.5m).

• **comment**

Deferred orders and a weaker dollar were the factors behind yesterday's disappointing interim figures. Stone International, which left operating profits some

15 per cent lower even after maiden contributions from acquisitions. A US pension fund surplus made a timely appearance to hold the decline at the pre-tax level to 5 per cent but forecasts, which had been coming down ahead of these figures, were further trimmed to around £31m for the year. The shares fell 15p to 185p which could upset the group's plans. Bringing the results forward from the end of January was hardly designed just to upset shareholders' Christmas but more likely to create a fair market ahead of issuing more paper. In its short life as a quoted company, Stone has a string of acquisitions behind it but it would need shares to finance anything like a deal of £10m or more. For such plans may need to be re-examined in the light of yesterday's fall which left the shares on a prospective multiple after a 20 per cent tax charge.

# Micro Scope lifts profits 81%

IN ITS first set of results since gaining a full listing in June, Micro Scope has lifted pre-tax profits in the year to October 31 1985 by 81 per cent from £595,000 to £1,080m and more than doubled earnings per share from 3.4p to 8p.

Sales increased from £2.6m to £3.6m, reflecting, Micro Scope says, the decision taken in 1983 to derive, within five years, more than half its business from exports. It now sells its products, it says, in 11 countries with prospects for several more.

This is aided by technical advances it is making in its videotex communications. The proceeds of the offer for sale have helped improve the balance sheet and together with a marriage loan have been used to build new headquarters which will be occupied from January 1 1986.

1986. Micro Scope says its working capital position has also been improved, enabling it to take advantage of any growth opportunities.

A final dividend of 1p per share is being recommended, making 1.53p for the year.

• **comment**

Micro Scope produced profits just the right side of the forecast made in June and the shares responded with a 10p rise to 120p, still only 5p above the offer price. The performance has been impressive: a dramatic increase in profits and margins, turnover per employee up from £55,000 to £65,000, and the proportion of earnings from overseas rising from 7 per cent to 11 per cent of the total. The chairman says the company's prospects for the current year continue to spread its ten-

tales in Europe and Australasia and is putting feelers into the US and China; new products are planned; the value of bids so far made for videotex contracts already exceeds the total value of all videotex business last year; and it has been appointed a Sony video dealer. There are two main factors holding the share price down at levels which Micro Scope itself finds disappointing. One is the market's understandable caution at the sight of a very small, very young company encompassing the globe in the cut-throat business of telecommunications. The other is that a rise in the tax charge to 35 per cent will largely nullify the likely growth in profits to £1.5m this year. The prospect of a p/e ratio falls to 13 where it is likely to stick.

# BSS 59% ahead at six months

The opening six months for the British Steam Specialties Group saw pre-tax profits surge by 59 per cent from £10.1m to £15.8m.

The rise was attributable to good all-round performance, particularly from the main distribution division BSS which was again by far the major profit contributor.

Turnover for the half year, to September 30, expanded from £31.6m to £37.91m and at the trading level profits pushed ahead by £802,000 to £2.91m. The Leicester-based group is a specialist supplier of pipeline equipment.

Earnings emerged 4.4p higher at 10.4p and the interim dividend is being lifted by 0.5p to 2.75p net per 20p share.

Branches at Edinburgh and Luton are now in service and extensions are in progress at Liverpool, Peterborough and Swansea. The Leeds branch is being moved to larger premises nearby and a third site in London is to be opened early next year to take advantage of the potential in the south-east.

In manufacturing the integration of K&K and Gardiner, the kemutec division has been completed and improved profits are now coming through.

# Granyte joining USM via placing of 3.5m shares

BY RICHARD TOMKINS

Granyte Surface Coatings, which makes wood finishing products for the furniture, joinery and do-it-yourself trades, has announced the details of its USM flotation.

A total of 3.5m shares are being placed at 55p each by James Finlay Corporation, the banking and corporate finance subsidiary of the James Finlay industrial and financial group. It is Finlay's first USM flotation.

Brokers to the issue are de Zoete & Bevan. Granyte claims to have about 30 per cent of the £25m-£40m market for wood finishes, which accounts for 64 per cent of turnover. The remainder stems from paint manufacturing.

The business was founded in

the 1850s but began the transformation to its present size in the late 1970s. It has made several acquisitions including the purchase last year of the industrial wood finish business of ICI.

Pre-tax profits have grown from £620,000 in the year to February 1981 to £945,000 in 1984-85. Turnover has risen from £4.7m to £11.7m over the same period.

The placing will give Granyte a market capitalisation of £7.84m, and will raise about £1m net for the company and about £840,000 for existing shareholders.

The directors say the reason for the flotation is to strengthen the equity base and reduce borrowings.

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. All meetings are usually held for the purpose of considering dividends. Official indications are not given as to whether the dividends are interim or final and the sub-divisions shown below are based mainly on last year's timetable.

**TODAY**  
Interim—Naggs Robinson, Jacksons Bourn End, NESCO Investments, Wright Colins Rutherford Scott, Investment Trust, Bochum Engineers, Conrad.

**FUTURE DATES**  
North British Steel, Redman Heenan International, Western Selection.

**Interim:**  
Bennett and Fountain Dec 19  
CAP Group (Pty) Ltd Dec 19  
Gellar (A. and J.) Jan 21  
Jones and Nessel May 23  
Radiant Metal Finishing Dec 18  
Stewart and Wright Jan 8  
Final:  
Spartan (C. A.) (Special Agency) Dec 20

# NOTICE OF REDEMPTION

## To the Holders of

### WELLS FARGO & COMPANY

12% Subordinated Notes Due December 27, 1991, Series A

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Section 4 of the Series A Notes and Article Three of the Indenture dated as of December 27, 1984 between Wells Fargo & Company and Morgan Guaranty Trust Company of New York, Trustee, U.S. \$5,370,000 principal amount of the Notes has been selected for redemption on January 17, 1986 at a redemption price of 101% of the principal amount, together with accrued interest to said date in the amount of U.S. \$1,000 for each \$1,000 principal amount, as follows:

OUTSTANDING NOTES OF \$1,000 EACH BEARING THE FOLLOWING DISTINCTIVE NUMBERS:										
10223	10224	10225	10226	10227	10228	10229	10230	10231	10232	10233
10234	10235	10236	10237	10238	10239	10240	10241	10242	10243	10244
10245	10246	10247	10248	10249	10250	10251	10252	10253	10254	10255
10256	10257	10258	10259	10260	10261	10262	10263	10264	10265	10266
10267	10268	10269	10270	10271	10272	10273	10274	10275	10276	10277
10278	10279	10280	10281	10282	10283	10284	10285	10286	10287	10288
10289	10290	10291	10292	10293	10294	10295	10296	10297	10298	10299
10300	10301	10302	10303	10304	10305	10306	10307	10308	10309	10310
10311	10312	10313	10314	10315	10316	10317	10318	10319	10320	10321
10322	10323	10324	10325	10326	10327	10328	10329	10330	10331	10332
10333	10334	10335	10336	10337	10338	10339	10340	10341	10342	10343
10344	10345	10346	10347	10348	10349	10350	10351	10352	10353	10354
10355	10356	10357	10358	10359	10360	10361	10362	10363	10364	10365
10366	10367	10368	10369	10370	10371	10372	10373	10374	10375	10376
10377	10378	10379	10380	10381	10382	10383	10384	10385	10386	10387
10388	10389	10390	10391	10392	10393	10394	10395	10396	10397	10398
10399	10400	10401	10402	10403	10404	10405	10406	10407	10408	10409
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10443	10444	10445	10446	10447	10448	10449	10450	10451	10452	10453
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10487	10488	10489	10490	10491	10492	10493	10494	10495	10496	10497
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## FT COMMERCIAL LAW REPORTS

## Time for settling patent licence terms

**REGINA v COMPTROLLER-GENERAL OF PATENTS, DESIGNS AND TRADEMARKS, EX PARTE GIST-BROCADES NV AND ANOTHER: ALLEN & HANBURY LTD v GENERICS (UK) LTD.**  
House of Lords (Lord Fraser of Tullybelton, Lord Diplock, Lord Bridge of Harwich, Lord Brightman and Lord Templeman): December 12 1985

AFTER THE end of their 16th year "new existing" patents may be extended for four more years during which licences can be obtained in terms of or in default of agreement, on terms settled by the Comptroller-General of Patents.

On July 31 1985 the House of Lords declared:

(1) That the Comptroller has jurisdiction (a) to settle the terms before the end of the 16th year, but terms and licence are incapable of taking effect before expiry of that year; and (b) to limit importation of the patented product from a foreign country outside the European Economic Community (EEC).

(2) That no licence of right is capable of taking effect until all its terms have been settled.

Questions with reference to pharmaceutical products, as to whether the Comptroller must invariably permit importation from outside the EEC and whether the courts have power by injunction to prevent such importation were referred to the European Court of Justice.

The declarations and referrals were made in appeals and cross appeals arising out of an action by Allen & Hanbury Limited against Generics (UK) Limited and others (FT June 7 1985), and an application by Brocade NV and another for judicial review of a decision made by the Comptroller-General of Patents, Designs and Trade Marks (FT May 3 1985).

On December 12 their Lordships delivered their reasons for the declarations and orders made on July 31.

Paragraph 4 of Schedule 1 to the Patent Act 1977 provides: "(1) The term of every new existing patent... shall be 20 instead of 16 years from the date of the patent. (2) Every patent shall... after the end of that year be treated as if it were a licence of right."

Section 46(3) of the Act provides that where entry is made on the register to the effect that licences are available as of right... (a) any person shall at any time after the entry is made be entitled as of right to a licence... on such terms as may be settled by agreement or in default of agreement, by the Comptroller.

LORD DIPLOCK (in a speech written before his death) said that under the Patent Act 1977 new existing patents "were those dated after June 1 1967. Their period was extended automatically from 16 to 20 years subject inter alia to the condition that licences of right should

be available during the extended period.

The present appeals and cross appeals started as two separate proceedings. One was a civil action by Allen against Generics for infringement of a new existing patent in which the original 16-year period had expired.

The other was an application by Gist-Brocades for an order for mandamus to compel the Comptroller-General of Patents to set in train immediately the procedure for settling the terms of a licence of right in a new existing patent.

Brocade's application to the Comptroller to begin to settle the terms had been made nearly eight months before the licence of right could take effect. He had refused to begin until the original 16 years had expired.

In each set of proceedings the subject matter of the patent was a well-known and highly successful pharmaceutical product.

Allen's patent was for salbutamol ("Ventolin") which was used to relieve asthma. Brocade's patent was for amoxycillin, used to relieve bronchitis.

Generics sought a licence of right to import salbutamol from Italy during Allen's four-year extension, while Brocade, intended to seek a licence of right to import amoxycillin from the Netherlands during Brocade's four-year extension.

Mr Justice Falconer took the view that on the true construction of the Act Generics, if it imported from Italy, would infringe the patent unless or until it had obtained a licence on terms which permitted importation. He gave Allen summary judgment for an injunction restraining Generics from importing.

He also took the view that articles 30 and 36 of the Treaty of the European Economic Community (EEC) [prohibition of restrictions on imports] did not restrict his power to grant injunctions restraining importation from Italy.

On the EEC law point the Court of Appeal by majority agreed with Mr Justice Falconer. But it felt constrained by the earlier Court of Appeal decision in *Brocade's* to hold that Generics' licence of right took effect from date of application to the Comptroller to settle its terms. It set aside the summary judgment in Allen's action and gave Generics leave to defend.

Mr Justice Falconer dismissed the Brocade application. He held that the Comptroller had no jurisdiction to embark on the procedure for settlement of terms until the beginning of the 17th year. His reasoning was upheld by the Court of Appeal. It held, however, that a licence of right granted to Brocade would take effect from date of application to settle its terms at any time after the 16th year had ended.

The Comptroller's discretion to impose limitations and conditions upon what the licence authorised the licensee to do was wide. It had been argued that he could impose terms as to the amount of royalties and security for their payment.

There was no justification for that construction. That the

patentee should receive reasonable remuneration was merely one of several purposes of settled terms [see section 50(1) and (2) of the Act].

The question was whether the Comptroller had a discretion to incorporate in a licence of right a prohibition or limitation on importation from a foreign country that was not a member of the EEC. Any contravention of the exercise of his discretion that might arise from articles 30 and 36 of the Treaty must be the subject of reference to the European Court of Justice.

Two of the grounds for granting compulsory licences listed in section 45(1)(b) and (c) of the Act were that demand for a patented product in the UK was being met to a substantial extent by importation, and that a patented invention was being prevented or hindered from being commercially worked in the UK "by... importation."

That appeared to place it beyond argument that the Comptroller, in settling the terms of a licence of right voluntarily or compulsorily, had a discretion to include a term prohibiting or restricting importation on the date when the extended four-year period began.

When the hearing of *Brocade's* application for judicial review took place, the appropriate remedy would not have been mandamus but either a declaration of right, or a quash of the Comptroller's decision denying his own jurisdiction. That part of the Court of Appeal's order dismissing *Brocade's* appeal for judicial review should be allowed to stand.

The questions of law which depended on interpretation of the EEC Treaty, in particular articles 30 and 36, were referred to the European Court of Justice for a preliminary ruling.

Their Lordships all agreed with Lord Diplock's reasons for making the declarations and orders made on July 31, 1985. With regard to his opinion that the Comptroller had a wide discretion in settling the terms of a licence of right, Lord Fraser and Lord Brightman reserved their opinion.

LORD TEMPLEMAN, disagreeing with the opinion, said that by section 46(3) the applicant was entitled as of right to a licence to do those things for which he required a licence. No power was conferred on the Comptroller to deny him the required licence in part or in whole, or to impose conditions on his use of the invention.

For *Brocade*: Stephen Grawick QC, Hugh Laddie and David Kitchen (Simmons & Simmons).

For *Allen & Hanbury*: Roger Henderson QC, Antony Watson QC and David Kitchen (Bristow Cooke & Carmichael).

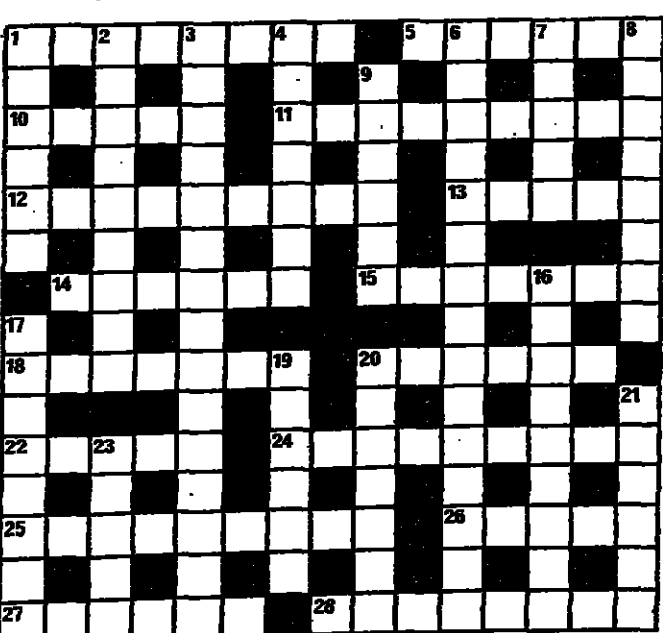
For *Gist-Brocades*: Alastair JD Wilson (Lovell White & King).

For *Generics*: Jeremy Lever QC, Nicholas Parnley and Richard Hoon (S J Bernstein & Co).

For the Comptroller: Gerald Paterson (Treasury Solicitor).

By Rachel Davies Barrister

## F.T. CROSSWORD PUZZLE No. 5902



- ACROSS**
- Ship's company in tight return for traitor (8)
  - Instruction telling pet how to drink? (3-3)
  - Horse, perhaps, a winner within his rights? (5)
  - Listen to article about Bill which causes great grief (9)
  - Person asking to have a meal that's flexible (9)
  - Vehicle curtailed old song (5)
  - ... ran, one glorious blood-red ... (6)
  - Bay (Browning) (7)
  - Conquer with two bits of cricket (7)
  - Trades Unions associated with City? (6)
  - A lot of pudding sent back seems to make sense (3, 2)
  - Feature informed on crockery? (9)
  - Male or female? Male sheep hired, one of many born (9)
  - Flag, initially Iberian — which is this? (5)
  - Cooked horse without direction (6)
  - Co-operative group, a king and queen, using pot? (3-5)
- DOWN**
- There's the wise — he sings — (6)
  - ... lest you should think he never could — (9)

## APPOINTMENTS

## NCB finance director

Mr Michael H. Butler has been appointed finance director of the NATIONAL COAL BOARD. Mr Butler has been director-general of the board's finance department since 1981. He joined the department in 1982.

Mr E. K. Ford has been elected chairman of the SOCIETY OF INVESTMENT ANALYSTS. He is a director of Morgan Grenfell Investment Management and has served on the council of the society for two years. He succeeds Mr J. A. Miller as chairman.

Mr N. (Nick) Metcalf has been appointed a director of KADEK PRESS, a subsidiary of the national Woodrow Group. He was production manager.

Mr Martin Findlay has joined the board of BODDINGTONS BREWERS as director of business operations. He was previously an alternate director and is a vice-chairman of Whitbread & Co. Mr Alex Bennett will retire from the board of BODDINGTONS on December 31.

Mr Michael Cox has been appointed as director of BUSINESS INTERIORS, a member of the Stock Exchange. Mr Cox was formerly with Ernst and Whinney.

MELTON MEDES has appointed Mr Robert F. Aiken as group finance director. He was with the Bowater Group where he was finance director of the group's European divisions.

Mr Mike Hollingsworth, former director of programmes for TV, is joining the THE MUSIC CHANNEL as director of programmes and production in the New Year. He takes over from Mr Julian Mounter who is leaving to become general manager of the New Zealand Broadcasting Corporation.

SWISS VOLKSBANK has appointed Mr Patrick von Stauffenberg and Mr Kurt Bollhauser to the positions of manager and deputy manager respectively of its new London branch. Mr von Stauffenberg joins the bank as a senior vice president and Mr Bollhauser is promoted internally to first vice president.

Mr C. E. Tibbary has become chairman of AVEVA BREWERY (HOLDINGS) following the retirement of Mr J. G. Swanson. Mr Tibbary is a non-executive director and past chairman of Whitbread & Co.

BRUNTONS (MUSSELBURGH) has appointed Mr David R. Fraser as sales and marketing director. Mr Fraser will take over full responsibility for the day to day running of the company. He has sales and marketing experience with Brunton's. Mr Fraser has joined as sales director. Prior to joining Brunton's, Mr Fraser was sales director of Munford and White.

Mr Michael W. Good has been appointed managing director of ANDREW WEIR LONDON. Mr Good has been made deputy chairman.

Mr M. J. Rainsford has been appointed to the board of LESSER DESIGN & BUILD as technical director.

At SLEEPSEEZEE Mr Steven L. Pae has become an associate director of finance and company secretary. He was previously managing director of resource development.

Mr Martin Clarke, a partner in TOUCHE ROSS & CO, has been appointed partner-responsible for Bracknell, Rawley, Darlington and Jersey offices within the firm's southern region. This appointment is in addition to Mr Clarke's existing role as national director of resource development.

Mr James G. West, deputy managing director of globe investments, has been appointed to the board of CANDEVEN INVESTMENTS.

## AUTHORISED UNIT TRUSTS

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## INSURANCE, OVERSEAS & MONEY FUNDS

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## COMMODITIES AND AGRICULTURE

## London to start tanker rate futures in February

By Our Commodities Staff

LONDON'S BALTI International Freight Futures Exchange (Biffex), which has been operating a futures market in dry cargo freight rates since May, is to launch a sister contract in tanker rates next February.

Following the Biffex Board's unanimous decision to go ahead with the tanker futures plan yesterday, its chief executive, Mr Stephen Carter, said he was confident that the tanker rate index on which the contract will be based would prove as good a market measure as had the dry cargo index been the original contract operator.

Tanker futures contracts will be settled in cash against the index, which will be based on medium size dry tankers and will be published from early next month to allow trade familiarisation.

DIAMOND futures trading in London has come a step closer with the establishment by the formation committee of the proposed London International Diamond Futures Market of an assay office in Antwerp, it was announced yesterday. The committee is conducting an evaluation of the latest technical methods for assaying diamonds which will form the basis for settlement of contracts traded on the proposed market.

THE US Commodity Futures Trading Commission's plans to discuss a number of new contract proposals yesterday were countered when it had to cancel its weekly meeting because the failure of Congress to pass an Appropriations Bill had left the agency technically without funding or authority to act.

Contracts which should have been discussed included a cocoa futures option, a frozen concentrated orange juice option and a European Currency Unit futures contract. The meeting has not yet been rescheduled.

CHINA'S grain harvest this year will be between 375m and 380m tonnes, according to Western diplomats in Peking, reports Reuters. But following four successive years of record production stocks are high and the country will again be able to increase exports, they added.

## WEEKLY METALS

All prices as supplied by Metal Bulletin:

ANTIMONY: European free market, 99.6 per cent, \$ per tonne in warehouse, 2,740-2,800.

BISMUTH: European free market, 99.99 per cent, \$ per lb, tonne lots in warehouse, 3,400-3,500.

CADMIUM: European free market, min. 99.95 per cent, \$ per lb, in warehouse, 100-110.

COBALT: European free market, 99.5 per cent, \$ per lb, in warehouse, 100-110.

MERCURY: European free market, min. 99.99 per cent, \$ per flask, in warehouse, 250-260.

MOLYBDENUM: European free market, drummed molybdenic oxide, 99.95 per lb, in warehouse, 2,500-2,600.

SELENIUM: European free market, min. 99.5 per cent, \$ per lb, in warehouse, 600-700.

TUNGSTEN ORE: European free market, standard min. 65 per cent, \$ per tonne unit WO<sub>3</sub>, cif, 55-60.

VANADIUM: European free market, min. 98 per cent V<sub>2</sub>O<sub>5</sub>, other sources, \$ per lb V<sub>2</sub>O<sub>5</sub>, cif, 2,150-2,200.

URANIUM: Nuxeo exchange value, \$ per lb U<sub>3</sub>O<sub>8</sub>, 16.75.

## EEC ministers dash hopes of tin crisis settlement

By QUENTIN PEEL IN BRUSSELS AND STEFAN WAGSTYL IN LONDON

EUROPEAN COMMUNITY countries yesterday failed to agree on a joint stand in the tin market crisis, dashing hopes of rapid moves towards a settlement when the International Tin Council reconvenes today.

EEC Foreign Ministers meeting in Brussels failed to reach any agreement to give the European Commission a mandate to negotiate on their behalf in the council.

WEST GERMANY, France and the Netherlands refused to back a British initiative to set up a joint position, in an effort to break the deadlock between the ITC and its creditors.

The tin council, which runs a price support pact on behalf of 22 governments, has run out of money owing hundreds of millions of pounds to its bankers and brokers of the London Metal Exchange.

West German officials maintained the determination of Bonn to reject any liability for the financial crisis of the ITC. They said that even to give the Commission power to negotiate

for the Community as a whole would be tantamount to accepting the need for a settlement.

Bonn would still be prepared to consider any initiative by the other side—the banks, brokers and tin producers—a West German official said.

"We are at their disposal to discuss, but not on the basis of formal recognition of liability," the UK, represented at the meeting by Mr Paul Channon, the Trade Minister, had sought agreement amongst the EEC "to assume collectively a certain responsibility in order to create a soft landing for the ITC," according to another official in attendance.

"The Commission has simply been told to sit on its hands. Certain delegates made it clear that the correct posture for the Commission is to do nothing," he added.

In London, ITC delegates from other countries said the news from Brussels virtually killed off the prospects of setting up a working party to negotiate with the creditors.

Mr Williamson, director of metal research for broker Shearson Lehman Brothers, said that if export quotas imposed by the International Tin Council were lifted world production would total some 250,000 tonnes a year—or 35,000 tonnes above demand.

This took no account of the stocks of 100,000 tonnes or so in the hands of the ITC and others, he said. "Tin prices must fall to a level where severe production cutbacks take place."

Producers in Malaysia, Indonesia, Thailand and Brazil could exist with prices at around \$6,000 a tonne, but mines in Bolivia and in Cornwall were vulnerable with production costs over \$7,500 a tonne.

Mr Williamson forecast that prices would therefore have to fall below \$6,000 a tonne before necessary cuts in production were made.

Initially, consumers short of metal might buy at the price when trading resumed, he said. But this would probably not last long since consumers would expect lower prices. The way the ITC stocks were sold

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## Overproduction put at 15%

By STEFAN WAGSTYL

TIN PRODUCERS need to cut production by at least 15 per cent to match world demand for the metal, a London conference on "The Market For Tin" was told yesterday.

Mr David Williamson, director of metal research for broker Shearson Lehman Brothers, said that if export quotas imposed by the International Tin Council were lifted world production would total some 250,000 tonnes a year—or 35,000 tonnes above demand.

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## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Interest fears depress dollar

The dollar lost ground in very thin trading yesterday and renewed speculation of an early reduction in the US discount rate. Sentiment was influenced primarily by comments made by Mr Henry Kaufman, chief economist of Solomon Brothers, suggesting that the rate charged on short term Federal funds would fall and that the US discount rate would also be reduced.

The market was also affected by Friday's release of the US fourth quarter flash estimate on GNP, and what little participation there was appeared to be inhibited ahead of the figure. A two day FOMC meeting which ends today contributed further uncertainty as to how the US authorities would pitch their policy on interest rates. Against this background trading remained very thin and nervous with relatively small amounts sufficient to influence rates.

A lower than expected figure for US housing starts contributed to the dollar's bearish undertone and although there was no success at establishing the dollar below DM 2.50, the US unit still finished at its lowest level since May 1983 at

## £ IN NEW YORK

	Dec. 17	Prev. close
Spot	1.4320-1.4325	1.4320-1.4325
1 month	0.48-0.49pm	0.47-0.48pm
3 months	1.33-1.34pm	1.32-1.33pm
6 months	1.47-1.48pm	1.46-1.47pm

Forward premiums and discounts apply to the U.S. dollar.

DM 2.5110 from DM 2.5230 on Monday. Elsewhere it fell to 2.5015 from 2.5020, FF 7.6650 from FF 7.7175 and Sfr 2.1010 from Sfr 2.1125. On the Bank of England figures, the dollar's exchange rate index fell from 127.4 to 126.8.

STERLING - Trading range 1.4655 to 1.4655. November average 1.4408. Exchange rate index closed at 76.5 down from 76.8 on Monday's close of 76.5. Sterling was easier against the dollar and European currencies in this trading ahead of Christmas. A softer trend in oil prices was seen as the main factor influencing trading. The pound closed at \$1.4355-1.4375 a fall of just 10 points. It was down against the D-mark at DM 3.6075 from DM 3.6275 however and

## Y280.0 compared with Y281.25

Elsewhere it slipped to Sfr 3.02 from Sfr 3.0375 and FF 11.0150 from FF 11.0975.

D-MARK - Trading range against the dollar in 1985 is 3.4510 to 3.5110. November average 3.4522. Exchange rate index 126.2 against 121.5 six months ago.

Trading was quiet and uneventful ahead of the year end. Dealers in Frankfurt were resigned to coping with small year end demand only, with most participants already squared off ahead of the festive season.

Current speculation about a fall in the US discount rate was countered to some extent by a reluctance on the part of EMS central banks, notably the West German Bundesbank, to see any renewed pressure within the EMS normally associated with a stronger D-mark. An opportunity for traders to capitalise on central banks' desire to maintain current levels ahead of the French general election failed to materialise. The dollar was firm at DM 2.5110 down from DM 2.5230 on Monday and there was no intervention by the Bundesbank. The dollar closed at DM 2.5050 from DM 2.5250.

FINANCIAL FUTURES  
Strong US bond

US Treasury bonds were very strong on the London International Financial Futures Exchange yesterday, breaking through to new contract highs, on further evidence of depressed economic activity. Bonds for March delivery opened at 83-31, and although this was above the previous close it was only slightly higher than the day's low of 82-29. Trading was fairly quiet until publication of November US housing starts. These fell by 12.2 per cent to 1.55m, and are expected to keep down demand for home loans, helping to reduce the general level of interest rates.

The housing starts figure pushed March bonds to a peak of 84-30, and the contract closed at 84-22 compared with 83-04 on Monday.

Eurodollar futures moved in reluctant sympathy with bonds, higher at 92-25. The March delivery of the low of 91-25, and finishing at 92-25, just below the day's high of 92-38, and compared with 92-25 previously.

The injection of \$100m temporary reserves into the New York banking system by the Federal Reserve, in conjunction with repurchase agreements, when Federal funds were trading at only 7 1/4 per cent came too late to influence trading on 18th, but dealers suggested that prices already reflect expectations of an early cut in the Fed's discount rate.

Gold futures were quiet for most of the morning, but gained some support from the improvement of sterling against the dollar. The contract opened at 111-04, and touched a peak of 111-09, rising with US bond futures after publication of the US housing starts. The UK public sector borrowing requirement of £702m in November was regarded as satisfactory and encouraged buying but profit-taking and a weakening of the pound in the afternoon took the contract down to 110-25 at the close, against 110-30 on Monday. Three-month sterling deposit futures continued to suffer from the lack of any prospect of an early cut in the bank base rate, closing little changed on the day.

## CURRENCY FUTURES

POUND - 1 month 1.4320-1.4325, 3 months 1.4320-1.4325, 6 months 1.4320-1.4325, 12 months 1.4320-1.4325.

STERLING - 1 month 1.4320-1.4325, 3 months 1.4320-1.4325, 6 months 1.4320-1.4325, 12 months 1.4320-1.4325.

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## LONDON

	Close	High	Low	Prev
Dec	110-21	110-21	110-21	110-21
Mar	110-25	111-00	110-25	110-30
Jun	111-07	111-07	111-07	111-07
Sep	111-14	111-14	111-14	111-14

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	92-25	92-25	92-25	92-25
Mar	93-31	93-31	93-31	93-31
Jun	94-30	94-30	94-30	94-30
Sep	95-29	95-29	95-29	95-29

	Close	High	Low	Prev
Dec	137-45	138-00	137-45	137-45
Mar	138-00	138-00	138-00	138-00
Jun	138-00	138-00	138-00	138-00
Sep	138-00	138-00	138-00	138-00

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

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Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

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Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
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Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

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Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
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Sep	85-29	85-29	85-29	85-29

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Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
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Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

## US TREASURY BONDS 6% \$100,000

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29	85-29	85-29	85-29

	Close	High	Low	Prev
Dec	82-29	82-29	82-29	82-29
Mar	83-31	83-31	83-31	83-31
Jun	84-30	84-30	84-30	84-30
Sep	85-29			







INDUSTRIALS—Continued

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## Indices

### to increase dividend

## Lindt plans to increase dividend

An extraordinary meeting on January 29 will vote on a capital increase, including the issue of 2,400 new registered shares of SFr 500 each at par. Holders of 10 existing registered or bearer shares would

from SFr 641m (\$212m) to more than SFr 670m. The board has already decided to ask the shareholders' meeting on April 17 1986 to approve a dividend increase from

## Ericsson wins \$35m contracts in N. America

At the same time mobile telephone operators in Ohio and Michigan have placed orders for Ericsson equipment to expand the Detroit system to four other cities.

Systems for the Bay Area Cellular Telephone Company operating in San Francisco and San José in telephone operator, is expanding its service to link Quebec, Ottawa, London and Kitchener to existing has on order half of the mobile telephone channels designed around the world.


**INTERNATIONAL  
PROPERTY REVIEW**

**PROPERTY REVIEW**  
**THE FT EVERY FRIDAY**

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**Prices at 3pm, December 17**

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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Continued on Page 32



Prices at 3pm, December 17

Stock	P/E	Div	Yield	100% High	Low	Close	Change	Stock	P/E	Div	Yield	100% High	Low	Close	Change	Stock	P/E	Div	Yield	100% High	Low	Close	Change	Stock	P/E	Div	Yield	100% High	Low	Close	Change
Adco	16	16	200	22	27	11	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
Aerco	10	10	12	20	25	31	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
AirCorp	10	10	12	20	25	31	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
Alcoa	10	10	12	20	25	31	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
Aluminum	10	10	12	20	25	31	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
Alumina	10	10	12	20	25	31	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
Amstar	10	10	12	20	25	31	-1	D	D							J	K							Jagor	12	41	7	46	20	20	-1
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# FINANCIAL TIMES

## WORLD STOCK MARKETS

### WALL STREET

## Blue chips remain on the boil

A FURTHER slide in yields on US Treasury bonds kept Wall Street stocks on the boil yesterday, writes Terry Byland in New York.

Blue chips rallied from a bout of profit-taking and moved to new peaks in another session of heavy trading.

However, the firmness in bonds could not entirely discourage the profit-takers in the stock market. An early dip of 8 points in the Dow average was quickly recovered, but attempts to move higher were resisted.

At 3pm the Dow Jones industrial average was down 0.46 at 1,552.64.

The sharp dip in November housing starts strengthened expectations that the Fed might soon ease credit policy to boost the economy. Treasury-bill rates dipped below 7 per cent, and the prospect of a 9 per cent yield on 30-year federal bonds came into view as bond prices broke through new resistance points.

The short end of the credit market was signalling an early cut in federal discount rate although opinions among analysts were by no means unanimous. The Fed encouraged the optimists with

\$1bn in customer repurchase arrangements when federal funds stood at 7 1/2 per cent.

Interest-rate confidence was also signalled by fresh gains in utility stocks and by SEC shelf registrations by US companies, opening the way for speedy credit issues if rates continue to fall. General Motors filed for \$5bn and Marriott for \$200m.

Initial profit-taking in the stock market was not unexpected although prices reacted sharply, when the buyers reappeared. IBM was at the top of the shopping lists and gained \$1 1/2 to a new peak of \$153 1/2 in heavy turnover.

The likelihood that lower interest rates will boost car sales brought gains in motor stocks. General Motors gained \$ 1/2 to \$76 1/2. Chrysler, still trading heavily on the plan to buy in stock from the employee investment plan, held steady at \$46 1/2. At \$58 1/2 Ford added \$ 1/2.

There were strong gains in chemical stocks, which benefit both from lower oil prices and from prospects for increased economic activity by the industrial nations. Du Pont jumped \$ 1/2 to \$97 and Monsanto \$ 1/2 to \$49 1/2.

Selective buying of industrial issues featured General Dynamics, up \$ 1 to \$89, Minnesota Mining & Manufacturing, up \$ 1/2 to \$91 1/2, and AT&T, up \$ 1/2 to \$24 1/2.

But airline stocks were slow to rally from the early profit-taking. At \$51 1/2 United shed \$ 1 and American gave up \$ 1/2 to \$44.

The Dow average again benefited from the bid situation in Union Carbide stock, which gained \$ 1 to \$71 1/2 in another session of heavy trading. Arbitrageurs are building holdings in Union

Carbide at prices well short of the \$85 a share offered by the company itself but now challenged legally by GAF, the rival bidder.

A new favourite for takeover speculation was TRW, which bounded \$6 1/2 to \$91 1/2 in thin trading. The company knew of no reason for the share price rise.

Also heavily traded was Texaco, down \$ 1 to \$27 1/2 as Wall Street awaited the next move on the penalty imposed by the federal courts over the Getty Oil deal.

Pharmaceutical stocks turned mixed after the sharp advance of the past month. Merck eased \$ 1/2 to \$136 1/2 in light trading, and others to turn sluggish included Pfizer, down \$ 1/2 to \$53 1/2, and Upjohn, down \$ 1/2 to \$134 1/2.

In the bond market gains ranged to a full point, bringing the yield on the key long bond down to 9.34 per cent, a net fall of about 100 basis points in the past month.

Treasury bill rates were several basis points lower, raising expectations of cuts in bank prime rates, if not in the federal discount rate, in the near future.

### TOKYO

## Fresh high as focus of buying shifts

RESPONDING to the overnight surge on Wall Street, the Tokyo Stock Exchange hit another peak yesterday with its seventh consecutive gain, writes Shigeo Nishiwaki of Jiji Press.

Investors' attention shifted away from blue chips, mainly in the electrical sector, that had led the bull market last week, to large-capital issues such as Tokyo Electric Power, domestic demand-oriented stocks such as properties, warehouses and electric railways and to some biotechnology-related shares.

The Nikkei market average gained 11.9 to a record 13,128.94, but the exchange's arithmetic average moved lower. Volume increased slightly to 343m shares from Monday's 274m. Declines outnumbered advances by 429 to 370, with 184 issues unchanged.

The lower trend in US interest rates, which has fuelled Wall Street buying, prompted individual profit-taking in anticipation of lower Japanese interest rates. Meanwhile, big-capital and domestic demand related issues were bought for capital gains ahead of next Wednesday, the final day of trading for the delivery of stocks this year.

Mitsubishi Estate topped the active list with 13.72m shares traded, climbing Y60 to Y1,200. Sumitomo Realty and Development and Mitsui Real Estate Development also gained in active trading, adding Y90 to Y1,200 and Y70 to Y1,080 respectively.

Elsewhere, some biotechnology-related stocks returned to favour. Takeda Chemicals firmed Y28 to Y277. Chugai Pharmaceutical Y55 to Y1,040 and Kuraray Y30 to Y1,480. But the recently favoured Mitsubishi Chemical and Asahi Chemical shed on profit-taking, slipping Y3 to Y537 and Y2 to 825 respectively.

Blue chips that had led the market advance last week lost virtually across the board. Toshiba lost Y7 to Y381, Matsushita Electric Industrial Y40 to Y1,320, Hitachi Y10 to Y775, Sony Y100 to Y4,200 and TDK Y100 to Y4,550.

Amid growing concern over the recent surge, prices in the bond market weakened with the yield on the benchmark 6.8 per cent government bond due December 1994 rising for the first time in seven sessions to 5.620 per cent.

The market opened firm in response to a decline in US interest rates but eased later as many investors moved to the sidelines, daunted by the sharp decline of 0.615 per cent in the yield-on-the benchmark bond from December 7 to 18.

### HONG KONG

PROFIT-TAKING nibbled away at prices in Hong Kong, and most ended a few cents easier on the day's trading.

News late in the day that Jardine Matheson had sold a Hong Kong residential development for HK\$254.5m caused a brief flurry in the market, sending Jardine 10 cents higher to HK\$13.30.

Otherwise, properties were lower. Cheung Kong fell 40 cents to HK\$20.80, Hongkong Land 10 cents to HK\$6.45 and Sun Hung Kai Properties 20 cents to HK\$12.70.

### SINGAPORE

SELECTIVE BUYING late in the session in Singapore helped some stocks recover some of their early heavy losses.

Attention centred on Singapore Airlines, which will make its debut on the exchange today. On the unofficial market it traded around \$85.00, the issue's initial public offer price.

The Straits Times industrial index closed down 5.60 at 838.45, and declines overwhelmed advances 113 to 24.

### CANADA

MINING and transport stocks provided the only momentum in an otherwise mixed Toronto.

Canadian Pacific traded C\$ 1/2 higher at C\$18 1/2, and fellow blue-chip Alcan gained C\$ 1/2 to C\$47 1/2.

Among miners Falconbridge was again higher, adding C\$ 1/2 to C\$20. Noranda climbed C\$ 1/2 to C\$15 1/2.

Higher miners also pushed Montreal higher.

### EUROPE

## End-of-year celebrations amid peaks

THE END-OF-YEAR celebrations continued on European bourses yesterday as records were set in a number of centres and investors vied with their transatlantic cousins for the laurels of the most dazzling stock market display of the year.

The Zurich peak - its sixth in a row - was on the back of modest gains with strong buying of banks and industrials, although special situations offered the real interest.

Chocolate producer Lindt stole the show with its brilliant Sfr 3,000 surge to Sfr 14,000 after announcing plans to boost the dividend and make a rights issue.

Oerlikon-Bührle put on Sfr 40 to Sfr 1,330 on news that its aircraft subsidiary Pilatus would receive a substantial order from the Australian air force.

Sandoz put on Sfr 50 to Sfr 10,850 as the rumour merry-go-round linked it with a possible takeover of Warner-Lambert, the US pharmaceuticals group.

Credit Suisse gained Sfr 15 to Sfr 3,680, and Swiss Bank added Sfr 3 to Sfr 553.

Higher bond market turnover was translated into small but widespread gains.

Frankfurt eased back from the record of the previous session with a small dose of profit-taking that left the Commerzbank index 11.4 lower at 1,636.5.

Foreigners were once again active. The flickering embers of the Flick soap opera were rekindled with Deutsche Bank setting a price of DM 1,120 for each of the 3.4m shares of Daimler that the bank acquired from industrialist Friedrich Karl Flick.

Digesting the news, investors marked Daimler down DM 31.50 to DM 1,220.50 and Deutsche Bank up DM 1 to DM 801, a new high for the year.

Other banks weakened while the remaining car makers were mixed, with BMW posting the best showing with its DM 7 rise to DM 579.

Chemicals lost most of Monday's lustre, with BASF cheaper by DM 3.20 at DM 269.30 and Hoechst DM 3 lower at DM 272.

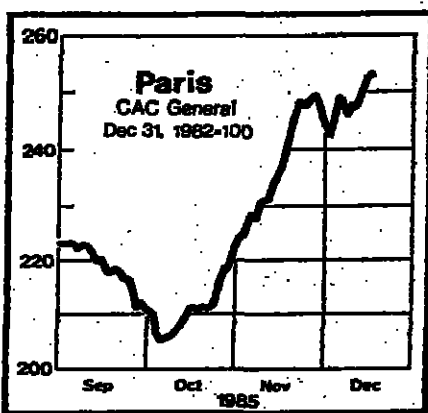
The bond market continued to en-

thrall although foreign buyers were not much in evidence. Gains of up to 45 basis points were scored, with the longer end of the market offering more appeal.

The Bundesbank's allocation of DM 8.7bn at 4.80 per cent in a new securities repurchase offer had been largely expected and had no impact on prices.

Amsterdam sprinted to a fresh record with a 0.4 rise in the ANP-CBS General index largely on the strength of the overnight performance of Wall Street. But as New York investors began to mark prices lower in early trading, Dutch courage was lacking.

Some publishers with US interests maintained their firmness. Elsevier put



on Ft 2.50 to Ft 172.50 while VNU picked up Ft 2 to Ft 284.

Among internationals Royal Dutch slipped Ft 1.90 to Ft 171.70, Unilever lost Ft 1 to Ft 384 and Philips surrendered 40 cents to Ft 57.20 ex dividend.

Bonds were higher where changed. Paris perked up despite a 45-minute halt to trading due to a bomb alert that forced the evacuation of the bourse. Wall Street's magnetic influence was cited for the firmer sentiment.

Brussels suffered a piner-like grip of a sharp rise in short-term interest rates and the predatory intentions of Petrofina on Charterhouse Petroleum of the UK.

Belgium's leading industrial group and one of the most important constituents of bourse indices fell Bfr 190 to Bfr 6,500 while the decision to boost the rate on short-term Treasury certificates by 0.90 percentage point to 9.75 from 8.85 had an understandably harsh impact on utilities, holding companies and other interest-rate-sensitive issues.

Milan began the first day of its 1986 trading year with heavy buying of industrials which boosted Ft 1.90 to Ft 1,480 as Montedison firmed 1.75 to 12.58.

Madrid lost ground in light trading while Stockholm suffered large falls across the board.

### LONDON

## Lingering oil price worries

DESPITE a strong overnight lead from Wall Street, London lost further ground yesterday. Gilt, in contrast, made a firmer showing, helped by an early improvement in sterling against the US dollar.

Blue-chip industrials were initially higher, but investors again showed a reluctance to commit funds, and the stocks drifted gently lower.

A late technical rally left leading stocks a few pence above the worst of the day, but underlying sentiment remained sensitive against a backdrop of continuing oil price uncertainties.

The FT Ordinary share index, which lost 14.5 at one stage, finished down 18.4 at 1,089.5.

Gilt ended with small gains. Longs recorded rises of around 1/4 while shorts were usually limited to 1/8.

Chief price changes, Page 31; Details, Page 30; Share information service, Pages 28-29

### AUSTRALIA

AS A RESULT of firmer world bullion and metal prices, Sydney moved higher across the board.

The gold index recorded its first gain after 14 consecutive falls to end 3.3 up at 814.8.

Among miners CRA added 4 cents to A\$5.26, MIM 8 cents to A\$2.58, Western Mining 5 cents to A\$3.11 and gold stock Bougainville 1 cent to A\$1.85.

News Corporation, owned by publishing entrepreneur Mr Rupert Murdoch, rose 50 cents to A\$9.00 after reporting a net profit of A\$35.3m for its first quarter, up 145 per cent from the previous year.

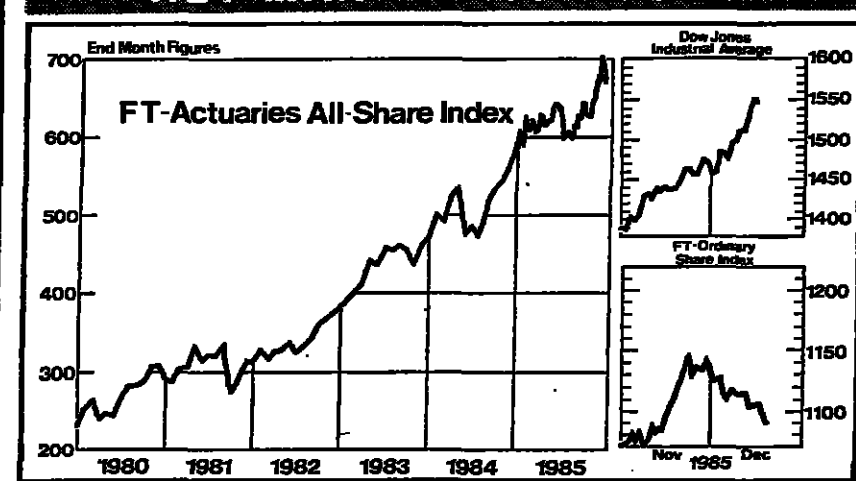
### SOUTH AFRICA

A MIXED to easier trend was evident in Johannesburg, pulled down by lower prices among gold stocks.

Driefontein ended down 75 cents at R47.50, and Vaal Reefs lost R1 to R208. Both Buffels and Modder were unchanged at R82.25 and R12.75 respectively.

In industrials Barlow Rand remained steady at R12.95.

### KEY MARKET MONITORS



STOCK MARKET INDICES			
	Dec 17	Previous	Year ago
NEW YORK			
DJ Industrials	1,552.64	1,553.10	1,176.79
DJ Transport	721.21	723.31	539.86
DJ Utilities	172.80	171.01	145.77
S&P Composite	211.19	212.02	163.61
LONDON			
FT Ord	1,089.5	1,100.3	939.9
FT-SE 100	1,365.4	1,376.5	1,212.5
FT-A All-share	682.51	687.75	583.80
FT-A 500	725.37	731.38	640.08
FT Gold mines	259.8	257.5	422.2
FT-A Long gilt	10.44	10.46	10.29

CURRENCIES			
	Dec 17	Previous	Dec 17
(London)			
US Dollar	2.511	2.523	1.437
DM	2.611	2.623	3.675
Yen	201.85	202.6	290.1
Sfr	7.685	7.715	11.015
Sfr	2.101	2.115	3.02
Swiss	2.684	2.645	4.075
Libra	1.791.0	1.791.5	2.453.75
Bfr	51.1	51.5	73.45
CS	1.39455	1.39405	2.0051

INTEREST RATES			
	Dec 17	Prev	
Euro-currencies			
(3-month offered rate)			
\$	11%	11%	
Sfr	4 1/4%	4 1/4%	
DM	4 1/4%	4 1/4%	
FF	12%	12%	

U.S. BONDS			
	Dec 17	Prev	
Treasury			
8% 1987	101 1/2	7.90	100 1/2
9% 1992	104 1/2	8.85	103 1/2
9% 1995	103 1/2	9.00	102 1/2
9% 2015	105 1/2	9.342	104

TREASURY INDEX			
	Dec 17	Prev	Day's change
Maturity			
1-30	137.45	+0.62	8.65
1-10	134.06	+0.45	8.38
1-3	128.85	+0.15	7.97
3-6	136.02	+0.52	8.53
15-30	149.65	+1.25	9.80

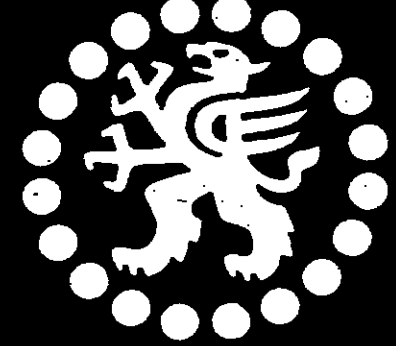
CORPORATE			
	Dec 17	Prev	Yield
AT & T			
10% June 1990	101%	9.90	101%
3% July 1980	85%	7.62	85%
8% May 2000	91%	9.90	89%

FINANCIAL FUTURES			
	Dec 17	Prev	Yield
Chicago			
US Treasury Bonds (CBT)			
8% 32nds of 100%			
Mar	84-21	84-31	84-10
US Treasury Bills (BIM)			
\$1m points of 100%			
Mar	93.31	93.34	93.27

COMMODITIES			
	Dec 17	Prev	Yield
(London)			
Silver (spot fixing)	410.80p	406.30p	
Copper (cash)	£975.25	£985.25	
Coffee (Jan)	£2,380.00	£2,253.50	
Oil (spot Arabian Light)	n/a	n/a	

GOLD (per ounce)			
	Dec 17	Prev	Yield
London	\$321.75	\$319.50	
Zurich	\$321.25	\$319.25	
Paris (fixing)	\$323.28	\$318.63	
Luxembourg	\$321.00	\$318.50	
New York (Feb)	\$323.90	\$324.90	

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